AMERICAN BANKERS Association JOURNAL

DECEMBER 1933

Important Articles on Recovery, 1934 Banking and the NATIONAL OUTLOOK

The Condition of BUSINESS

A MONTH ago the interest of the business world was focused upon the N.R.A. almost to the exclusion of everything else. As was pointed out in the November 1 review here, we were then engaged in testing an interesting theory—the theory that it is possible through the intervention of a mechanism such as the National Recovery Act to rearrange the normal processes of business recovery.

That experiment is still in progress; but in the interval events have served to minimize its importance. More precisely speaking, a single event has served to thrust it into the background. That event transpired on the night of October 22, when the President, addressing a nation-wide radio audience, announced his determination that "the United States must take firmly into its hands control of the gold value of the dollar."

"As a . . . means to this end," he added, "I am going to establish a Government market for gold in the United States. Therefore, under the clearly defined authority of existing law, I am authorizing the Reconstruction Finance Corporation to buy gold newly mined in the United States at prices to be determined after consultation with the Secretary of the Treasury and the President. Whenever necessary to the end in view, we shall also buy or sell gold in the world market."

What did this mean? It meant that we were embarking upon an experiment in some ways even more epochal than that represented by the codification of industry under the N.R.A. It meant that we were about to try out in actual practice the "managed money" theories of Professor George F. Warren of Cornell University in an effort to raise prices, as the President had promised that he would raise them, to the 1926 level, and once having got them there that he would keep them there.

Stated simply, the Warren theory—a theory which is almost unanimously rejected by orthodox monetary economists—is that the general level of prices is determined by the size of the country's (CONTINUED ON PAGE 69)

GLOBE

W. I. Myers, pupil of Prof. Warren, is the new Farm Credit Administrator in place of Mr. Morgenthau

GLOBE

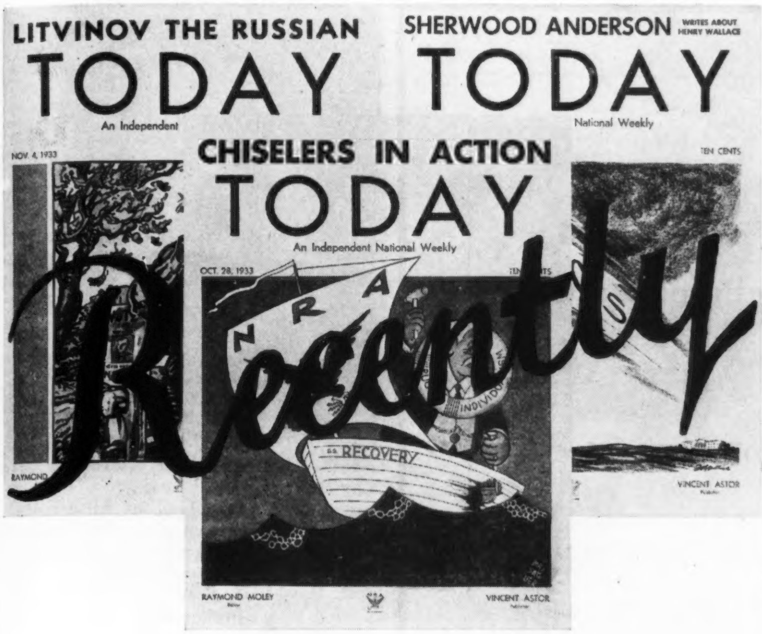
Henry Morgenthau, Jr., pupil of Prof. Warren, is the new Under- and Acting Secretary of the Treasury

Bonds

THE recent past and the immediate future of the bond market have been conditioned by two factors that are of importance because of their psychological influence. They are depressants, but this effect they achieve, not because they necessarily force liquidation but because they arouse fears that are antipathetic to the investing mind. Under their weight, bond prices of all descriptions, with the sole exception of foreign gold coupon issues, have sagged badly.

First, the evolution of the country's monetary policy into one deliberately designed and used to depreciate the dollar in terms of gold and of commodities has created doubts among bondholders whether there can be any other sequel than outright currency inflation to such a policy. Bonds, naturally, would fare poorly, as the experience of Germany and France has shown, in a period of inflation. The income from high grade bonds becomes a thing of small consequence at a time when the purchasing power of the dollar is drastically reduced. In this state of affairs the cream of the bond list, the issues of the United States Government itself, have taken the lead on the decline.

Second, as a not illogical response to the Government's currency policy, the American Securities Investing Corporation, the "bond pool," is retiring as a holder and purchaser of bonds. This is the company which, after its formation in June, 1932, did such notable work in halting the disastrous slide in bond prices that was then in progress. Now it is repaying 80 per cent of the subscriptions of its sponsors, which include among their number the largest and oldest banks and banking houses in the country. If, by their action, they signify their belief that the conditions are not as propitious now as they were last year for buying bonds at depreciated prices, the public can be excused if it regards the bond list as something less than a bargain counter.



The new weekly magazine, *Today*, published and edited by two of President Roosevelt's close personal friends, came into being in October

***Today* is important, because it may bring to the United States a slightly clearer picture of the Philosophy prevailing in Washington. On the cover of the historical first issue is a well fed person called "Rugged Individualism", furtively committing suicide for some reason not entirely clear**

R. F. C.

Under the limitation fixed in the original Reconstruction Finance Corporation Act as extended by the President, the R.F.C. can make no new loans after January 22, next, although it has up to five years thereafter to wind up its loan business. It is difficult to conceive of the situation if the lending life of the institution should not be promptly extended by Congress. For nearly two years it has functioned as the chief side door entrance to the Treasury of the United States, habitually used by farmer and financier.

What would happen without it might have to be left to the imagination were it not certain that Congress will promptly extend its life and increase its funds. The doctrine of many public men today seems to be that while the country might operate without the Constitution it cannot operate without the R.F.C.

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N. R. A.

Congress will modify the N.R.A. set-up, but it is not likely to turn the control of industry to industry itself as the Swope plan proposes. Under the amended act there will be less thunder and desk thumping in Washington, the penal provisions of the present system will be abolished, the law will be more persuasive than compulsory, but control will remain where the authorities in Washington can get hold of it if they need it.

Present centralization in Washington is proving impracticable, burdensome alike to industry and the Government. Changes also are necessary to allay discontent—in other words, for political reasons. There is a Congressional election to occur next year and, whether reasonable or not, a rising tide of opposition to any legislation is dangerous to the party in power.

*

B. I. S.

Just about the time the Federal Reserve System was placed in a position where it could have an important part in the management of the Bank for International Settlements through the election of Governor George L. Harrison of the New York Reserve Bank as a director, the B. I. S. itself shows signs of impending desuetude. In May, 1931, the world bank had resources equivalent to over $425,000,000. Its latest state-

Governor F. B. Olson of Minnesota, during a recent visit to Washington with four other western governors, presented a plan to Secretary Wallace and President Roosevelt for raising farm prices

ment—that for the September quarter —shows resources of about $134,000,000.

The usefulness of the bank depended upon two factors, reparations and the operation of the gold standard. The former has disappeared for good and all; the latter has taken to a bomb-proof dug-out. Nevertheless, the way back to normalcy in international use of gold may be through the institution at Basle.

*

Uncertainty

It is becoming more and more evident that there will be no general recovery in business until there is an end to some of the great uncertainties which the country faces. Chief of these is the uncertainty as to the future of the dollar. It is an unfortunate fact that for several months the chief efforts of financiers and business men generally have been directed not to a search for investment for or means of advancing the commerce and industry of the nation but in a search for safety for capital. The N.R.A., the A.A.A., the T.V.A., the C.C.C. and all the letters of the alphabet in appalling Governmental array will operate in vain so long as such a situation continues.

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Financing

It is expected that the refinancing of the $727,000,000 of Treasury certificates of indebtedness due December 15 will be in the form of Treasury notes running up to five years maturity. Such a plan will bring the new maturity of this sizable block of Government obli-

INTERNATIONAL

Touring the Middlewest in the interests of AAA, Secretary Wallace said in Chicago, "The things which this Administration has done thus far in 1933 may seem spectacular, but they are only a faint foreshadowing of some of the things which will ultimately be necessary before the United States has made for herself her new true place in the family of nations"

•

gations two or three years short of the heavy refinancing which must be done for recent issues between 1940 and 1943. An alternative plan would be the issue of 1-year certificates, but the indications are that the Treasury will need all available funds lying loose about the market a year from now for other purposes.

There is just a little undercurrent of worry as to how the Government's gold policy will affect the market for the December issue. The present outlook is fair to middling, with a little flurry just before Armistice Day as a warning. The Government is always face to face with the possibility that the market and its own credit standing may change overnight.

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Deposit Guaranty

"The consensus among the savings bankers," says Mr. Henry R. Kinsey, President of The Savings Banks Association of New York, "is still strongly against the principle of deposit insurance as a permanent solution of the nation's banking problems," but the members of the Association are planning to cooperate with the recovery program of the Government along the only lines open to them under the circumstances. As a statement of the views and intentions of per- (CONTINUED ON PAGE 62)

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY

OF CHICAGO

Statement of Condition, October 25, 1933

RESOURCES

Cash and Due from Banks	$214,552,023.50
United States Government Securities	93,383,051.67
Other Bonds and Securities	65,075,535.48
Loans and Discounts	352,046,295.75
Stock in Federal Reserve Bank	3,000,000.00
Customers' Liability on Acceptances	6,016,756.54
Other Banks' Liability on Bills Purchased	172,602.78
Interest Accrued but Not Collected	2,329,918.50
Bank Building	14,475,000.00
Other Real Estate	3,816,935.05
Other Resources	565,896.80
	$755,434,016.07

LIABILITIES

Capital Stock		$ 75,000,000.00
Surplus		25,000,000.00
Undivided Profits		4,365,230.92
Reserve for Contingencies		5,000,000.00
Reserve for Taxes and Interest		11,165,984.02
Deposits: Other than Public Funds	$560,988,151.10	
Public Funds	66,137,475.90	627,125,627.00
Acceptances		6,582,356.13
Other Banks' Bills Endorsed and Sold		172,602.78
Discount Collected but Not Earned		456,318.42
Other Liabilities		565,896.80
		$755,434,016.07

AMERICAN BANKERS
Association
JOURNAL

DECEMBER 1933

1934
The National Outlook for Banking

By WILLIAM K. PAYNE

Mr. Payne is chairman of the National Bank of Auburn, Auburn, New York, and chairman of the Bankers N.R.A. Committee of the State of New York

BANKERS are mobilizing under the Code, and the prospect is that this tremendous task will be brought to a successful completion before the end of the year. It is extremely important that bankers should face 1934 and the uncertainties of deposit insurance with a united front. The progress made in the past few weeks must convince every one that the banking system will be ready.

"The Banking Code Committee is charged with the duty, in cooperation with the Administrator, of administering the Code. In performing this duty it desires the earnest and whole-hearted assistance of the Bankers N.R.A. Committees and of every bank. It believes that the fair practices sought to be put into effect under the Code will be of great advantage to the whole banking system and to the country, and it will rely for its successful operation on the voluntary cooperation of the banks."

With these words The Banking Code Committee introduces the manual which was issued as a method of instructing the banks of the country as to what the Code of Fair Competition is all about, and what the individual banks and their banking associations are expected to do.

Strange terms and unfamiliar practices have suddenly been introduced into the banking field with the setting up of this Code. "A Code of Fair Competition" and "A Regional N.R.A. Committee" are phrases never before heard in banking circles, and in too many banks such terms as "Regional Clearinghouse" and "uniform service charges" have not become familiar through use.

Perhaps the future regulation and development of American banking can best be worked out within the structure of the Code, rather than by resort to further legislative changes

But stranger still than the words and phrases that are brought to his attention when the banker reads the Manual, he discovers that a great change has suddenly come over the business of banking. Hitherto individual banks in a given trade area have been highly competitive, their methods of operation exhibited great variety; and in their relationship with each other aggressive independence, rather than cooperation, has been the dominant note. And now, with an almost shocking suddenness, the banks are told what wages they must pay their employees and how long they may let them work. They are informed that by December 2 they must be organized into regional clearinghouses, or similar associations, and through these associations must agree upon uniform rules as to when the banks of a given community shall be open to the public for business, what interest they shall pay on deposits and how they shall compute such interest; that they shall establish uniform charges which will cover the costs of each service they render their customers, and that such charges when established shall be collected from each of their customers without favor or exception.

They learn also that these self-imposed rules and regulations are to be coordinated, supervised and, if necessary, enforced through The Banking Code Committee, a group of their own members, selected by them through their American Bankers Association.

And finally it is brought to

their attention that the entire plan, procedure and enforcement is under the ultimate authority of a branch of the Federal Government, and that the rules and practices to be established will have the force of law, with ample penalties provided to insure their observance.

Would it be surprising if many members of the banking fraternity, inherently conservative, always slow to change methods of operation or institutional setup, should exhibit symptoms of an emotional and an intellectual shock, and should be hesitant and somewhat ineffective in their response to the new requirements?

To one sitting in the offices of The Banking Code Committee during these weeks of peaceful revolution of our banking system and in constant touch with what is going on in all parts of the country, it is most surprising that, almost without exception, there has come prompt acceptance of the responsibilities and duties imposed and an understanding cooperation in carrying out the many details of the tasks imposed on each community. As the work progresses the conviction seems both to widen and deepen that the plan is sound, workable and will result in marked advantages both to the banks and to the public.

Scarcely had The Banking Code Committee completed its organization and set up its headquarters before reports began to come in from many sections of the country telling how the banks in their particular region proposed to organize and seeking instructions as to the procedure to be followed.

The picture presented was strongly reminiscent of the beginning of the War, when the various activities of the country were being mobilized for co-operation and united action. Many a state and many a community was striving to be the first to report that its forces were organized and ready to proceed; each wanted to be assured that it was proceeding along the right lines, and each expressed readiness to change its plans to conform to the harmony of the whole mobilization.

FOR EXAMPLE

This map shows a state divided geographically for the purpose of administering the Bankers Code

Today one can detect distinctly a note of patriotism in many of the matter-of-fact communications from banking leaders not often caught displaying their emotions.

Georgia bankers report that they have organized all their rural banks into eight regional clearinghouses and want to know if it is not the first state to become completely organized.

Kansas wires that they are setting up one organization for the entire state with uniform rules to govern all banks. They report that they expect that every bank in the state will join the organization.

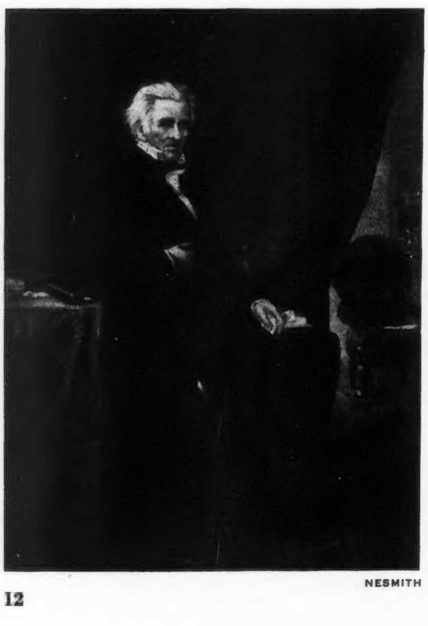
Montana, North Carolina and a number of other states are at work setting up similar single statewide organizations.

New York, in one week, brought each county association into conference and proceeded rapidly to bring all the banks of the state into county or other small unit groups with such rules as would fit their local conditions and harmonize with their neighboring associations.

In the spirit of the Code each state seems to be at work perfecting its organizations and formulating such rules as will best comply with the purpose of the Code and will best fit the special conditions found in the local community.

If an occasional community appears not yet in step and ready to do its part, the wide and enthusiastic sweep

Four Important Eras in Banking History



NESMITH

DECENTRALIZATION

Political and personal quarrel. President Jackson regarded a strong central bank as a dangerous rival

NATIONAL BANKING SYSTEM

For financing the War of the Rebellion. The National Banking Act of 1863 was supplementary to the Legal Tender Act of a year before, and it was passed to help President Lincoln buy powder, men and money

LESLIE'S, 1863

of the movement as a whole and the obvious merits of the plan will doubtless bring into line the faltering few without resort to any suggestions of compulsion or penalties.

Consider for a moment what the bankers are saying about this novel plan for closer cooperation in banking. A letter from Texas says, "We want you to know that our one aim in this section is to make the work of the Banking Code Committee as easy as possible, and I do not believe you are going to have much trouble with us." A banker in Colorado writes, "We all want to cooperate and it is certainly in the interest of every bank to cooperate so that we may have a little earning power and not be forced out of business. . . . I know that nine out of ten bankers would agree that if the schedule comes down from Washington just the same as the interest rate and the regulations on paying for demand and savings deposits, there will be practically no friction or resentment on the part of our customers."

From Kansas comes this pledge: "Let me congratulate you on the 'Manual'. It is a very clear exposition of the proper procedure in securing the adoption of the Code, service charges, etc. We will follow its directions to the letter in this state." A leading banker from Missouri expresses this opinion: "I think your committee has done the best job any bankers committee ever handled. The data are clear, concise and constructive, and if followed will be of untold value to the bankers of the country."

BEFORE CODES

Nationwide distribution of clearing-house organizations, according to a compilation made by the JOURNAL a year ago

Catching the vision of the great opportunities which are offered banking under the Code of Fair Competition, many clearinghouses and similar organizations are preparing rules which will govern uniform practices in fields beyond those in which regulations are required to be enacted at the present time. They are setting up rules as to donations of their shareholders property, protection against the lure of improper or unprofitable advertising, exchange of information and the like.

But legislation, to be effective, must be on broad lines and confined generally to broad principles of general application. The success of the business of banking, like the practice of law or of medicine, is predicated very largely on high technical skill, based on wide knowledge and experience, good judgment, high character and a keen sense of professional obligation. Such attributes cannot be created by legislation, and in their absence no legal safeguards will protect the institution from disaster.

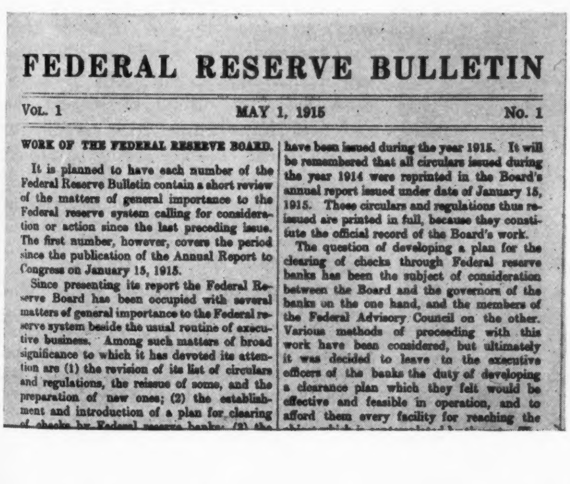
Very many banks in all parts of the country are being operated by executives of the highest character and professional skill, and their institutions are carrying on during these difficult times with safety and efficiency. What is most needed is to bring every bank which is to continue as a part of our great banking system to the high standards, the successful practices and the degree of earning power which insures safety that is common to our best banks. The Bankers Code of Fair Competition would seem to offer a great opportunity to our banks, through cooperative self-regulations formulated under the leadership of the best men in the banking business, and made effective as to all banks by the prestige of Governmental approval and the power of Governmental enforcement.

By the prompt and wide acceptance by our bankers of this great opportunity the weaknesses in our present banking structure can be promptly eliminated, and if this result is accomplished, much detailed and hampering banking legislation probably can be avoided.

and How Each Started

FEDERAL RESERVE SYSTEM

To prevent periodic depressions. Hopefully phrased first sentences, first page, first issue of the Federal Reserve Bulletin



FEDERAL RESERVE BULLETIN

VOL. 1 — MAY 1, 1915 — No. 1

WORK OF THE FEDERAL RESERVE BOARD.

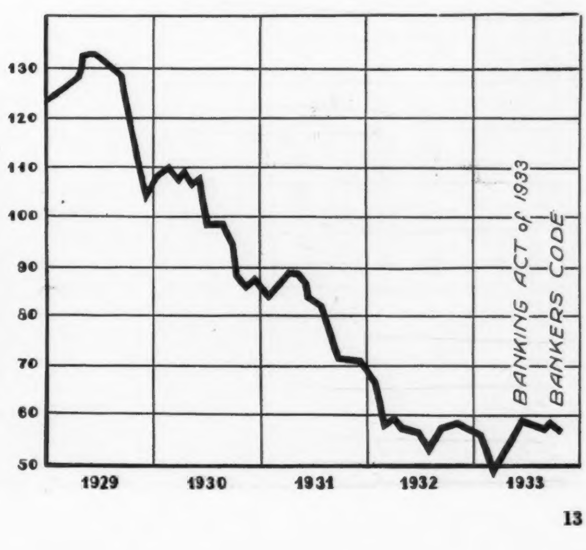
It is planned to have each number of the Federal Reserve Bulletin contain a short review of the matters of general importance to the Federal reserve system calling for consideration or action since the last preceding issue. The first number, however, covers the period since the publication of the Annual Report to Congress on January 15, 1915.

Since presenting its report the Federal Reserve Board has been occupied with several matters of general importance to the Federal reserve system beside the usual routine of executive business. Among such matters of broad significance to which it has devoted its attention are (1) the revision of its list of circulars and regulations, the reissue of some, and the preparation of new ones; (2) the establishment and introduction of a plan for clearing of checks by Federal reserve banks; (3) the have been issued during the year 1915. It will be remembered that all circulars issued during the year 1914 were reprinted in the Board's annual report issued under date of January 15, 1915. These circulars and regulations thus reissued are printed in full, because they constitute the official record of the Board's work.

The question of developing a plan for the clearing of checks through Federal reserve banks has been the subject of consideration between the Board and the governors of the banks on the one hand, and the members of the Federal Advisory Council on the other. Various methods of proceeding with this work have been considered, but ultimately it was decided to leave to the executive officers of the banks the duty of developing a clearance plan which they felt would be effective and feasible in operation, and to afford them every facility for reaching the

DEPOSIT INSURANCE, CODE, BANKING ACT OF 1933

To prevent periodic depressions. Era Number 4 started under at least one serious handicap. It was launched when the country could hardly be expected to act intelligently



1934

Why Not Try Capitalism?

By VIRGIL JORDAN

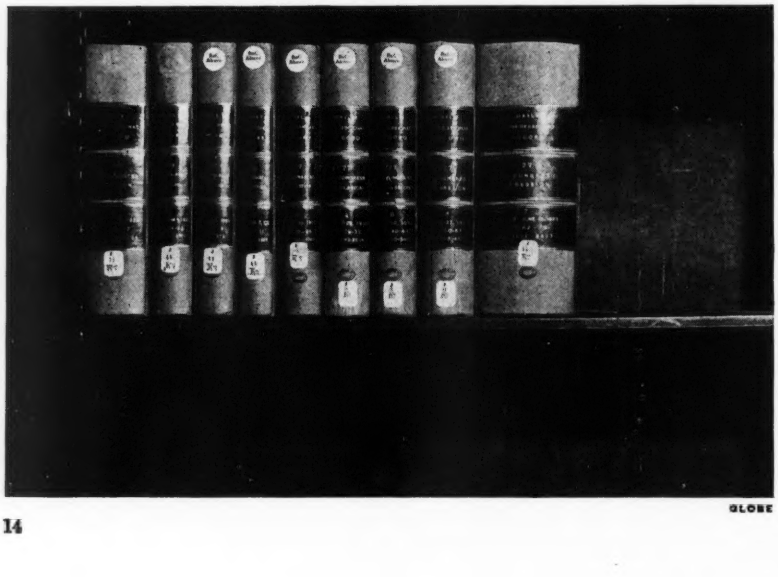
Dr. Jordan is president of the National Industrial Conference Board

MOST Americans with insight and imagination are aware that the things that are happening in the United States today probably have a momentous historical importance, not merely for our own future, but for the course of events in the rest of the world. Despite our distance from Europe and differences in the temperament of our people and in the basis of our institutions we have somehow suddenly been caught in the vast, swift currents of collective ideas set loose by the disintegration following the World War, and swelled to a powerful tide by the demoralization accompanying the depression. We are moving swiftly, unconsciously toward the socialization or governmentalizing of our economic system in the United States. What special form of socialism will result from the pressure of forces let loose by the Governmental policies being followed is not yet clear, for as yet the structure of our political institutions has not been outwardly altered; but there can be no real doubt about the essential change occurring in our economic ideas and our economic system.

We can appreciate how rapidly the change is proceeding only when we apply some relative standard of comparison. We, supposedly the exemplar of capitalism, have moved so far to the left and are headed so definitely in that direction, while Russia, ostensibly the extreme expression of communism, has shifted so far to the right that she can confidently recognize the United States; and as I write we witness the astonishing paradox of American capital seeking safety in investments in bonds of the Soviet Government, which promises their payment in gold on demand while the Government of the United States has repudiated its pledge as regards its own obligations.

Perhaps some seer with the vast historical perspective and deep philosophical insight of a Spengler will assure us that this spectacular transformation is all for the best and in accordance with the inevitable inwardness of events; but some of us who are in the midst of it and who view it in the perspective of American experience and in the light of our development as a people during the past century have the uncomfortable feeling that it is somehow all a mistake, a mere accident, a product of purely superficial and capricious circumstance, with no real significance in our situation as a nation and no deep roots in our experience and temperament as a people. They ask themselves whether all of this sudden acceptance of the philosophy of Karl Marx by an American Administration would have happened if, for instance, the French Government, as it might, had begun to stabilize the franc in 1926 instead of 1928, and the depression here had begun a year or two earlier; or if a Democratic instead of a Republican Administration had presided over the toboggan slide up to November, 1932. More uncomfortable still is the question whether all this stampede to the left would have happened if the Fathers had chanced so to arrange our political calendar that the presidential election had come at any other time than November, 1932, when the "natural" bottom of the depression had been reached the world over, and if the inauguration of a new Administration had happened to be dated at some other period than March, 1933, when the process of recovery was well under way in all other countries.

These hypothetical questions of history, prompted by the suspicion that the American revolution of 1933 was essentially an accident, will never be answered; but others of inescapable practical importance still remain to perplex those who are trying to adjust themselves to the fortuitous drift toward collectivism that has started in



GLOBE

CONGRESS 73

This is a picture of bound volumes of recent Congressional Records, on the shelves of the Library of Congress. Washington. The empty space will be filled by the Records of 1934, when that important chapter in history shall have been written

this country. What, really, is this "capitalism" which we as a nation have suddenly decided to reject, whether by sheer political caprice or by deep-seated design of our destiny? Is it indeed the system under which we have been living; and if so, are we sure that it has in fact been such a failure that we must forthwith scrap it for something with which we have no direct experience whatever and which has certainly not demonstrated its success anywhere in the world so far? May it not be that, as has been said of Christianity, we do not know whether it will work because it has never been tried?

Certain facts are fairly clear for anyone who considers these questions objectively. In the first place, whatever name we may give to the economic system and political institutions under which we have developed this country during the past two hundred years, the results achieved under them have been without parallel in the world's record of economic and social progress. Out of a virgin wilderness a mere handful of people, whose energy and enterprise would now make us call them "chiselers", carved the basis of the most spectacular industrial development the world has ever seen. The production of useful goods and services has grown at a practically constant rate throughout this period—a rate higher than that in any other country; the output per worker, the real wages per worker and the standard of living of the population have also risen until they are greater than in any other nation. The wealth of the nation as measured in the means of production of goods and services has likewise grown steadily and rapidly. These are simple statistical facts, widely known and incontestable by any open-minded person.

Several business depressions have temporarily interrupted this growth of productive power and wealth; but it is impossible to say that they have been characteristic of the system under which this growth took place. Depressions have occurred in every other country and in every period of history under every kind of economic or political system. They have occurred in Communist Russia, Fascist Italy, in feudal, monarchical and democratic England, in imperial Rome, republican Greece and in the Egypt of the Pharaohs as well as in the Chinese Empire. It is silly to associate depressions with any particular economic, social or political institutions; and the rate of economic development in America is a fact without precedent, (CONTINUED ON PAGE 64)

AN EXCELLENT PLAN

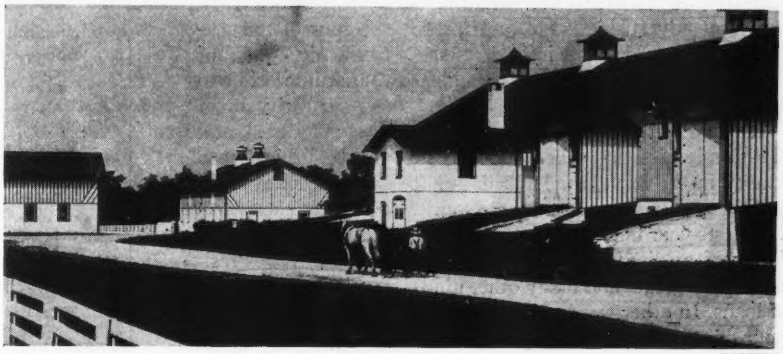
In spite of its admitted faults, Capitalism is one plan with a stupendous record of accomplishment and achievement behind it


NESMITH

Capitalism has built several well known civilizations, and the absence of capitalistic safeguards in states has been synonymous with barbarism


EWING GALLOWAY

From a purely practical standpoint, those who desire to find an economic Utopia should make a careful study of the record of this excellent Plan


ROBERTS

1934

The Public's Attitude Toward Finance

By PETER MICHELSON

The author is manager of advertising and publicity for the Bank of America in California. This institution won first honors for its bank advertising in the annual competition conducted under the sponsorship of Bank Ad-Views in New York City

"WHAT changes in bank advertising are likely to result from the Code of Fair Competition and the deposit guaranty plan?" is not an unusual question.

No fundamental change is likely to occur—it has already taken place. In other words, bank advertising anticipated much that has become established bank practice since last March.

Banks, under the compelling necessities of the depression, are leaning heavily in their advertising toward a policy of greater frankness in order to regain public confidence. As this policy demonstrates its effectiveness, the trend continues. The Bankers Code and the deposit guaranty plan merely give greater impetus to a movement already well under way.

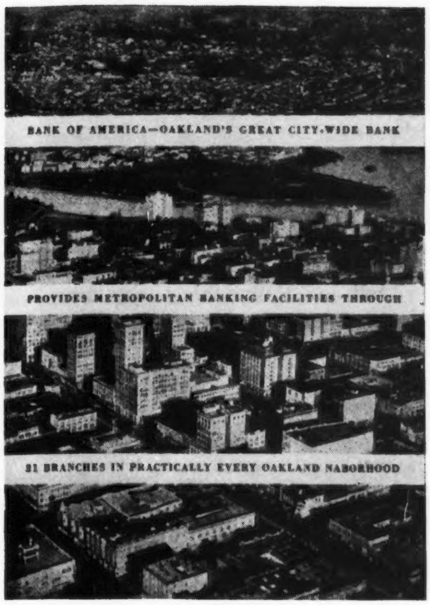
The Financial Advertisers Association, composed of the men and women charged with the responsibility for building public relations for the financial institutions of America, did yeoman service in this pioneering effort, not only by inspiring its own membership but in the education of bankers themselves. That this seed was planted in fertile soil was evidenced at the last convention of the association when, not advertising men, but the country's leading financiers stressed the need to continue on present sound lines. For the first time the banking fraternity has realized that advertising is not an expense item but one of its best investments.

On the night of March 12 President Roosevelt addressed the people.

He said: "First of all, let me state the simple fact that when you deposit money in the bank, the bank does not put the money into a safe deposit vault. It invests your money in many different forms of credit, in bonds, commercial paper, mortgages and many other kinds of loans. In other words, the bank puts your money to work to keep the wheels of industry and of agriculture turning around. A comparatively small part of the money you put into the bank is kept in currency, an amount which in normal times is wholly sufficient to cover the cash needs of the average citizen. In other words, the total amount of all the currency in the country is only a comparatively small proportion of the total deposits in all of the banks.

"What then happened during the last few days of February and the first few days of March? Because of undermined confidence on the part of the public, there was a general rush by a large portion of our population to turn bank deposits into currency or gold, a rush so great that the soundest banks could not get enough currency to meet the demand. The reason for this was that, on the spur of the moment, it was, of course, impossible to sell perfectly sound assets of a bank and convert them into cash, except at panic prices, and far below their real value."

While the President's cheering words have helped, while the deposit guaranty plan will still further aid, every one of us is painfully aware of the fact that confidence in banks has not been fully restored—not confidence only in the ability of our banks to remain open but confidence in the integrity of the men who are at the head of our financial institutions. The daily reports in newspapers of the Senate investigation are forcible reminders of the magnitude of the job ahead. Advertising, alone,



cannot accomplish the task, but advertising, plus management, can and will.

In spite of the guaranty plan, the stability and soundness of the individual institution will continue to be the determining factor in selecting a bank and, by the same token, bank advertising will continue to stress the safety factor. Indeed, while reassuring to depositors, the plan has added to the banker's problem that of holding present deposit lines. The tendency to spread accounts in order to take full advantage of Government protection is already evident. It is the problem of the great metropolitan banker as it is of the small country banker. Only as the banker is able to convince the customer of the soundness of his loan policy, the security of his portfolio, the ability of the management, will he be able to offset partially the trend; and constructive, intelligent, sound advertising by financial institutions will be more necessary than ever before.

Should banks advertise the insurance plan as an added protection to depositors? Probably a much more satisfactory method would be by direct contact through the bank personnel. The customer will have many questions in mind that cannot be fully answered in limited newspaper space. A personal interview not only will often allay fear but will present the additional opportunity for cementing old friendships. Advertising, on the other hand, conceivably might defeat its own purpose by further emphasizing the limitation feature and the desirability to spread accounts.

The present critical attitude calls for more lucidity in the published statements of condition. People have learned that millions in deposits do not necessarily mean security for their funds. They want to know of what such deposits consist and, most important, how they are invested. "Frozen assets", has become in the past three years a term of general usage employed by every boy in high school debate or school treatise. Your average man today knows that a Liberty bond in the bank's portfolio is equivalent to cash, that a mortgage on farm or home takes time to liquidate and that a proper balance must be maintained to insure the return of the depositor's money when he is entitled to demand it. Bank of America's published statement of June 30, titled "Here Is What You Have Asked For, A Statement That You Can Understand", with each item carefully set forth in explanatory note, brought a wider response from customers than any advertisement this California state-wide institution has ever published.

Companion piece to the deposit insurance, in fact, a part of it, is the requirement that banks shall issue preferred stock to the Reconstruction Finance Corporation. The Government policy, at present, is that this requirement is mandatory on all banks. Its purpose is twofold—to make eligible for insurance those banks that otherwise could not qualify, to release credit in furtherance of the Administration's program to aid recovery, and, thereby, if possible, avoid actual currency inflation.

Unfortunately the publicity that has preceded the plan has led to extravagant hopes impossible of fulfillment. Education in the ABC's of bank loans is necessary, and advertising will have to carry the burden, backed by a personnel able to explain bank policy intelligently. President Roosevelt might lead the way by again addressing the American people some time before January 1. The President very properly could clarify the situation in a radio talk. Permit me to ghost-write a hypothetical radio talk by the President:

"My friends, the insurance deposit plan and the subscription by your Government to preferred stock in the banks of the nation, both of which plans are in operation today, are security measures taken by your Government in fulfillment of its promise last March to protect the funds you have placed for safekeeping in the financial institutions of this country.

"By becoming a preferred stockholder in American (CONTINUED ON PAGE 59)

By JOHN J. DRISCOLL, JR.

The High Cost of Bargain Trust Service

THE AUTHOR, Mr. Driscoll, is a bank analyst who has been a frequent speaker before management conferences under the auspices of the Bank Management Commission, and his opinions expressed here are based on recent studies of banks with trust departments. In this article he says that the competitive cutting of rates has been the cause of many trust departments operating at a loss. It is interesting to note that he has reached the same conclusions, in large measure, as the Committee on Costs and Charges of the Trust Division in its various reports; although, as he states, he has used a somewhat different method in computing costs.

MANY articles have been written on the unprofitableness of trust departments and their cost of operation. Despite this, I believe it would be worth while at this time to call attention to the prime function of a trust department; namely: to produce revenue commensurate with the services rendered.

The facts and statements set forth here are based on an analysis of trust departments with individual trusts from in excess of $100,000,000 down to a negligible figure and consist of many large departments and a great many more small departments.

The results of these analyses show an operating loss in about 11 out of 12 departments and a very meagre profit in some that are profitable. This loss is by no means confined to small and new departments but frequently appears in departments of considerable size.

Over a year ago, the Trust Division of the American Bankers Association released a booklet outlining a cost system and recommended its adoption by members. This plan, and particularly the schedule of suggested fees included therein, was a commendable and a much needed contribution to this phase of banking.

In the preparation of departmental earning statements for banks, it has been our practice to consider capital funds and the earnings therefrom as a separate department of the bank. No part of the earnings from this source are credited to any other department and, hence, each department reflects the result of operations alone. Once earnings have been credited to capital account, they belong to stockholders, and we feel the various departments should earn a profit exclusive of this factor.

Deposits carried with the banking department by the trust department are analyzed, and after deduction of 1½ per cent per annum as the fair margin of profit to the banking department, all excess earnings on these deposits in addition to interest are credited to the trust department. If, as is rarely the case, these deposits are carried at a loss, then a service charge is made against the trust department's earnings to reimburse the banking department.

The costs of operating small trust departments or the different divisions of larger departments are divided into administration costs, operating costs and new business costs. It is common to find that new business costs, including soliciting, advertising, etc., and in addition, a charge for that part of officers' time used in securing and building this business, will constitute 20 per cent to 25 per cent of the cost of operating the department. This is a high new business cost, a factor that has helped produce many unprofitable departments.

It is as practical to determine the cost of various trust activities and functions as it is to determine the cost of the various activities and functions in the banking department. Such costs would provide a definite basis for the setting of fees and clearly show just what types of trust business it is desirable to spend money and effort to secure, and just what types should be kept at a minimum.

Frequently, the systems used by this department and their basis of handling details result in higher than average costs of operation. Particularly in smaller departments, there is room for considerable improvement and standardization in this respect.

It is not fair to consider any one year's operation of this department as a criterion of the profitableness or unprofitableness of its operation. As frequently, there is little relation between the work done in any one year and the fees collected in that same year. The operations should be considered over a period of time, say five years, to determine reasonably the results being attained.

Many small banks have established Trust Departments which will never pay their way and, hence, never produce a profit. The desire to do what a competitor has done seems to be the motivating factor in this step. The ultimate possibilities in securing a volume of trust business are so remote as to be properly termed impossible of realization. Occasionally, a large estate might come to the bank and temporarily pay for the loss incurred in operating the department, but such happenings are few and widely separated.

In the larger banks, where substantial corporate (CONTINUED ON PAGE 61)

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Mr. Driscoll, a certified public accountant, is connected with the firm of Driscoll, Millett and Company in Philadelphia

Banks as Sources of Capital Funds

By E. C. HARWOOD

The author is a member of the faculty of Massachusetts Institute of Technology and a frequent contributor to the JOURNAL

FOR the past few months the banking fraternity has been subjected to a barrage of advice from Government officials and others, urging an expansion of credit facilities in the form of new loans to business or new investments. The impression seems to be widespread that the Federal Reserve banks can and should furnish capital funds.

A few weeks ago the Federal Reserve Board began purchasing Government securities in the open market, thereby building up excess reserves for the member banks. Confronted with these excess reserves and pressure from responsible sources, bankers must now find an answer to the question, "should these excess reserves be used for long term investment?"

It is now generally realized that the World War was financed by the use of bank credit for capital purposes, particularly for investing in United States Government bonds. The realization is also growing that the period 1921–29 was another time of vast credit inflation accomplished by the use of bank credit for long term investment. The large amount of excess credit which was originated on the basis of investment type assets during the periods above mentioned is shown in the accompanying chart.

It is unnecessary to discuss the features of these inflationary periods in great detail. The earlier one, which culminated in 1920, was accompanied by a vast speculation in commodities and farm lands. The later boom, which ended with the panic of 1929, witnessed the greatest stock market frenzy of all time. Even more serious, as subsequent events have shown, was the overinvestment in industrial plant facilities and the urban real estate building boom. Events of the past four years have demonstrated the demoralizing and disintegrating effects of the follies of boom times.

Having just been through two successive periods of credit inflation, the banker is not to be blamed if he hesitates to embark on a repetition of the process. Under ordinary circumstances there is no justification for the use of bank credit for long term investments. The mere existence of an emergency is likewise no justification for such action. It is possible, however, that at this particular time there are extraordinary circumstances (CONTINUED ON PAGE 42)

Credit Inflation—

financed the War

KEYSTONE

financed expansion after the War

NESMITH

The answer to the problem which now confronts the bankers of the country is . . . that a limited use should be made of the excess reserves being provided by the Federal Reserve banks.

. . . If sane and orderly use of these funds is made . . . there need be no apprehension that the after-effects will jeopardize the banks—The Author

Currency Is Very Hard to Manage

By GEORGE E. ANDERSON

A Chronology of the Changing Legal Status of Gold Appears on Page 28 of This Issue

IF THE average price of commodities, as measured by the wholesale price index for 1926, was 69.8 in the year 1913, rose as high as 154.4 in 1920 and fell eventually to 60 in February, March and April of the current year, while all this time the American dollar was full strength and firmly fixed on gold, why should it be necessary or advisable to interfere with the gold value of the dollar to bring prices back to normal—for example back to the 100 of the 1926 level? The answer is that it is neither necessary nor advisable.

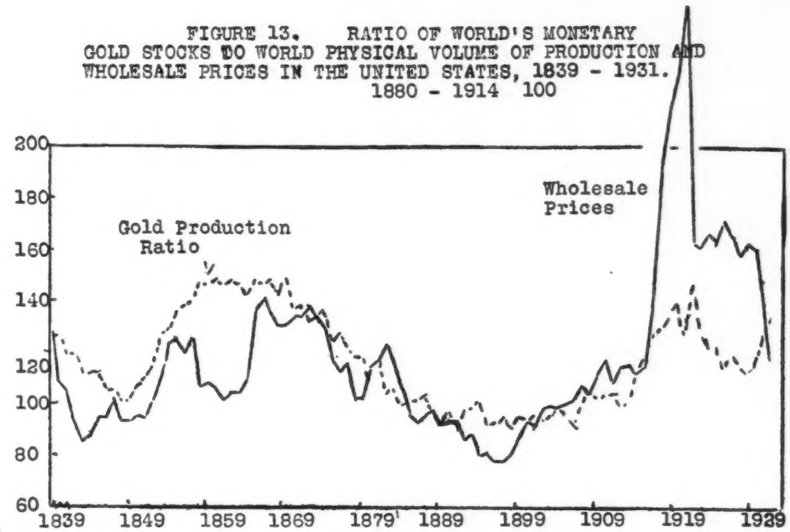
Undoubtedly gold has an influence upon prices since, under present monetary systems of the world, gold is the basis of currency and credit. Even under the rather hide-bound monetary system of the United States, however, gold can be expanded into two and a half times its value in currency, and currency and bank credit combined have been expanded in the past ten years into more than 15 times the gold the United States has acquired in that period. It seems logical to conclude that gold has about one-fifteenth the importance of combined factors in commodity prices. As a means of final conviction it may be noted that when prices in the United States in 1920 were the highest known since a record has been kept—154.4 as compared with prices in 1926, later taken as the norm of measurement at 100—the gold stock of the country averaged a little less than $2,900,000,000. In February, 1933, when prices were the lowest since the record has been kept, the gold stock was around $4,500,000,000. In neither case were prices raised or depressed by a lack or superabundance of gold.

These are not mere theoretical observations, for they have to do very directly and practically with the matter of the revaluation of the United States dollar, which will be undertaken in Congress before many weeks. The issue will be drawn as between three methods of readjustment. One of these methods is temporary—that of "stabilization", which means fixing the international value of the dollar in terms of gold by operations in exchange. Another is permanent stabilization by reducing the gold content of the dollar to conform to the value established. The third is the adoption of a managed currency in the form of a so-called "compensated" or "commodity" dollar—a dollar with a theoretical gold content which varies with commodity prices in such a way that the gold in the dollar will always, in theory at least, buy the same quantity of commodities. In other words, commodity prices would always remain fixed. The gold in the dollar would be changed from time to time to keep commodity prices at the established level. None of these methods is likely to please the supporters of sound money, but the plain fact is that the country has reached the Clevelandesque situation where it faces a condition and not a theory. It must either accept a new value for its currency or climb a very steep and thorny path to a 100-cent dollar on the gold standard.

The idea back of a new value for the currency is that of cheaper money, money of less purchasing power, for the purpose of lifting the price level. The compensated dollar proponents go further and propose not only to restore prices by a cheaper dollar but also to maintain them at the higher level—all of which suggests the query: What are the relations of gold and commodity prices, anyway?

Obviously, the first factor to be considered is commodity prices, their level and the manner in which that level was established. It may be assumed for purposes of investigation that the commonly accepted commodity price indices, particularly that of the Bureau of Labor Statistics, may be accepted as the basis for calculations of the purchasing value of the dollar, although any and all of them are open to noteworthy objections. On the whole they represent the result of the best scientific thought and investigation covering many years, and the weighted adjustments allowing for comparative importance of the items, seasonal trends and all other factors are probably as accurate as could

FIGURE 13. RATIO OF WORLD'S MONETARY GOLD STOCKS TO WORLD PHYSICAL VOLUME OF PRODUCTION AND WHOLESALE PRICES IN THE UNITED STATES, 1839 - 1931. 1880 - 1914 100



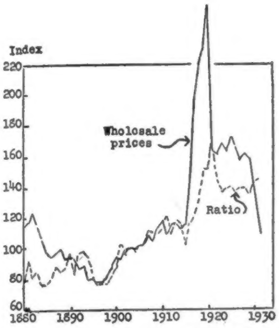


FIGURE 2. RATIO OF ACTUAL BANK CREDIT TO CREDIT INCREASED AT 5.5 PER CENT RELATED TO PHYSICAL VOLUME OF PRODUCTION, COMPARED WITH WHOLESALE PRICES, 1880-1932

1880-1914 = 100

Before the war, if credit increased 5.5 per cent, it is about sufficient to maintain stable prices when production increased 4 per cent per year.

TWO EARLY WARRENS

A year ago there was a release to the press signed "G. F. Warren, Professor of Agricultural Economics and Farm Management, Cornell University", and issued by the American Farm Bureau Federation, Chicago. On this occasion Professor Warren described his theories of gold and the price level and stated that he would soon publish a book in collaboration with Professor F. A. Pearson. Since then Professor Warren has become a close adviser of President Roosevelt, particularly with reference to the Government's attempt to raise the price level by reducing the gold value of the dollar. The two charts above are taken from a number of similar charts included in the press release.

be expected. It is evident, however, that such indices in the United States based upon current prices are largely artificial. Practically all such prices are affected directly or indirectly by a protective tariff. These artificial or protective tariff prices might be stabilized or coordinated within the United States itself, but since the gold content of the commodity dollar is chiefly important in international settlements it is quite evident that the international value of the dollar upon which all import and export trade must be based cannot be stabilized or coordinated on an artificial or domestic basis without leading to exactly that same variation in buying power of which there is current complaint and which it is the object of the whole compensated dollar project to avoid.

It is also evident that basing the value of the dollar on the mere average of all commodity prices, even with due scientific weighting, cannot overcome the results of long range price trends in such a way as to avoid the evils of the current system. The classic example is the wide variance between prices paid farmers for their products and the prices paid by farmers for the things they buy. With the average of prices from 1909 to 1914 as 100, prices received by the farmers at the beginning of 1931 were 94, while prices paid were 137. Two years later prices received were 63 and prices paid 121, the ratio of prices received to prices paid falling from the pre-war average of 100 to 52 at the beginning of the current year.

Price levels, moreover, do not vary equably. Taking 1926 prices as the basis of comparison, farm prices at the beginning of the current year had fallen to 42.6 per cent; foods to 55.8 per cent; hides and leather products to 68.9 per cent; textile products to 51.9 per cent; fuel and lighting to 66 per cent; metals and metal products to 78.2 per cent; building materials to 70.1 per cent; chemicals and drugs to 71.6 per cent; household furnishings to 72.9 per cent and miscellaneous goods to 61.2 per cent. The average of all commodities was 61 per cent. Thus three groups were below the average, one absolutely at the average and six above. The variation between the highest and lowest was 30.3 points of the 1926 average, the highest—metals and metal products—being 71 per cent out of line as compared with farm products, the lowest. By September the average of farm product prices had risen to 57.6 per cent; foods, 64.8 per cent; hides and leather, 91.7 per cent; textile products, 74.6 per cent; fuel and lighting, 65.5 per cent; metals and metal products, 81.2 per cent; building materials, 81.3 per cent; chemicals and drugs, 73.1 per cent; house furnishings, 77.6 per cent, and miscellaneous goods, 65.4 per cent. The average of all commodities was 69.5 per cent. The same number of commodities was below the average as in January—the same commodities, in fact. The range between the highest—hides and leather—and the lowest—farm products—had increased to 34.1 points. Farm product prices had risen more rapidly than the prices of other commodities but were still far out of line with other prices; and they lost ground later.

It may be reasoned, of course, that the 1926 price level is an arbitrary standard which may or may not represent a normal adjustment of prices as between the several commodities which compose it, and that the comparative prices of commodities as between themselves at the present time may be as sound and satisfactory an adjustment as that taken (CONTINUED ON PAGE 50)

RUSSIAN
Transition


York Times.

THE WEATHER
Partly cloudy today; Monday, fair, continued cold.
For full weather report see Page 22.

1

4, 1920. In Eleven Parts, Including Picture and Magazine Sections (Rotogravure) and Book Section. FIVE CENTS In Greater New York | Elsewhere TEN CENTS

REDS PLOTTED COUNTRY-WIDE STRIKE; ARRESTS EXCEED 5,000, 2,635 HELD; THREE TRANSPORTS READY FOR THEM

500 REDS AT ELLIS ISLAND

Prisoners Taken in Raids Hurried to This Port for Deportation

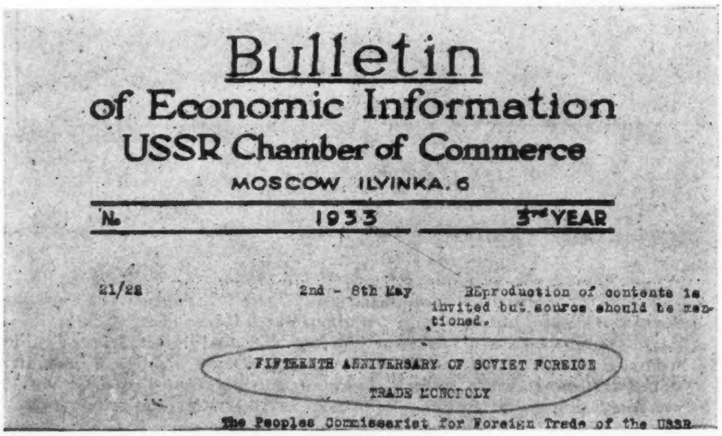
Communist Labor Party Sought to End Capitalism and Organize Workers to Be the Ruling Class

WASHINGTON, Jan. 3.—Assistant Attorney General Garvan made public tonight the department's memorandum, submitted to the Bureau of Immigration, upon which was based the Government classification of the Communist Labor Party as coming under the Espionage act. This disclosed that both groups were pledged to fight any suggestion of military action by America against the Soviet Russians. Membership applications revealed that both groups were indirectly under the control of the Russian Communist Council.

FOMENTED TWO BIG STRIKES

Communists Planned to Extend Steel and Coal Walkouts.

Thirteen years ago, under President Wilson, the Federal Government was exporting Communists by the boatload


Bulletin
of Economic Information
USSR Chamber of Commerce
MOSCOW ILYINKA, 6

No	1933	3rd YEAR

21/22 2nd - 8th May Reproduction of contents is invited but source should be mentioned.

FIFTEENTH ANNIVERSARY OF SOVIET FOREIGN TRADE MONOPOLY

The Peoples Commissariat for Foreign Trade of the USSR

After several years of trying openly to sell Communism to the world, Moscow changed her tactics

INTERNATIONAL

Alexander Kerensky, who was the chief power in Russia in 1917 during the interregnum between the Czar and the Bolshevists

KEYSTONE

Maxim Litvinov arrived in Washington November 7 and ten days later was notified by President Roosevelt that the United States and Russia would resume diplomatic relations

BROWN BROS.

Pre-OGPU manners in Russia. The Czarina and her daughter, Olga, driving in the palace grounds

RELATIONS

Illustrated

FAIRBANKS

Joseph Vissarionovitch Stalin, general secretary of the Russian Communist Party, and the most powerful figure in Russia, was not publicly mentioned during the recognition negotiations

FAIRBANKS

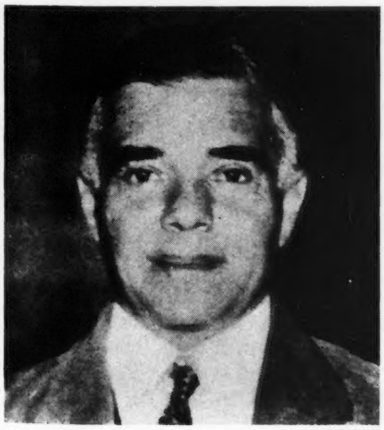
President Kalinin of the Soviet Union (second from left) received a letter from President Roosevelt, dated October 10, asking him to send a representative to Washington

BROWN BROS.

The last Czar of Russia, Nicholas II, with his family, all of whom were murdered on June 18, 1918, at Ekaterinburg, in the foothills of the Urals

FAIRBANKS

After an attempt to get along without banks the capitalistic virtue of thrift is once more being encouraged in Russia



KEYSTONE

Alexander Troyanovsky, former Soviet envoy to Tokio, will be the first Ambassador to Washington from Moscow

INTERNATIONAL

William C. Bullitt, first American Ambassador to Soviet Russia, began urging recognition of the communist republic in March 1919

Purchasing Power

The Annual Savings Deposit Report Shows a Total of $21,469,529,000

THE persistent and heavy decline both in the volume of savings deposits and in the number of savings depositors, with the resultant lack of considerable increase of business, indicates the futility of attempting to quicken the business life of the country by emotional appeals. Business develops through ordinary processes. Buying comes as a result of earnings and not necessarily of needs. Makeshifts allow for living during a long period on a subsistence basis. That does not quicken business life. The volume of business depends upon factors, both immediate and remote, arising frequently in unexpected quarters. Money does not in itself make business or cause business to grow, but business makes money.

As countries rise in the scale of civilization, savings tend to increase. They are necessary in a forward-looking country. From these reservoirs of capital come the funds to reconstitute industries and inaugurate new ones made necessary by an increase in population. Industries spring from an adequate supply of capital. Wise spending is essential if the even flow of life is to continue. Wise spending is possible only when wise saving has been practiced.

During the past three years there has been a great redistribution of wealth. The process continues. That redistribution fails of its object if the newer recipients do not utilize it wisely both in saving and spending.

SAVINGS deposits, as represented in savings accounts and time certificates of deposit in banks and trust companies of the United States, stood at $21,469,529,000 on June 30, 1933, according to reports received by the Savings Division, American Bankers Association. This represents a recession of $2,855,054,000, or 11.7 per cent, from the amount on deposit one year earlier, and of $7,009,102,000 or 24.6 per cent, from the all time high of $28,478,631,000 established on June 30, 1930.

The loss in savings of $7,009,102,000 during the last three years represents such a vast sum that difficulty is experienced in trying to grasp it. The ordinary expenses of the Federal Government of the United States for the first 80 years of its history, or up to 1870, which included the period of the Civil War, represent a sum only slightly more than the loss in savings deposits since June 30, 1930. Part of this amount is represented by hoards, part is tied up in closed or restricted banks, part is deposited in postal savings not reported by banks, but without doubt a large part was expended for living expenses and for burdensome tax levies, which tend to become intolerable during hard times.

Thus, the loss of markets, cessation of industry, slowing of transportation, and banking difficulties in this country, with the consequent unemployment of many millions of people, have in three years reduced the savings of each inhabitant in the United States from $232 to $170, or $62 a person. During the last year alone the reduction amounted to $24 per inhabitant. Expressed in terms of the so-called "buy now" campaign, it means that every person in the country not only spent all his current earnings but an additional $24 withdrawn from his savings in the bank.

In the face of a population increase of 871,000 during the year, savings depositors suffered a reduction of 5,084,373, or 11.5 per cent, from the previous year. The number now stands at 39,267,733.

The year 1928 marked the high point in the number of savings depositors, 53,188,348, which represented 44.3 per cent of the population of the United States, as against a percentage of 31.1 having savings in banks on June 30, 1933.

Individual deposits, which represent both savings and commercial deposits, in 1928 were in excess of $51,000,000,000. One year ago they stood at $39,306,214,000, a decline of $11,893,050,000. During the year they registered a further decline of $3,793,277,000 and now stand at $35,512,937,000, a decrease of 30.76 per cent from 1928. Individual deposits have been depleted to a greater degree during the past year through loss of savings deposits than by a reduction in commercial deposits. Total individual deposits now are in volume about a billion dollars below those of 1922. Savings deposits are slightly in excess of those in 1924. The gain in savings during nine years has been wiped away in three.

Ever since the World War savings deposits have comprised an increasing proportion of individual deposits, until a year ago 62 per cent of them were represented by savings. Due to lack of business activity a year ago and the consequent decline in the volume of loans, commercial deposits reached so low a point that any further decline must be relatively small. The slight functioning of business this year, however, threw a greater strain on savings deposits for consumption purposes. Therefore, individual deposits now comprise only 60 per cent savings as against 62 per cent a year ago.

Outside of Maine, the loss per inhabitant in New England is relatively small as compared with that of a year ago, being $29 against a loss of $54 last year. Connecticut cut a loss of $50 last year to $13 this year and Rhode Island, a loss of $47 to $27; Massachusetts,

By W. ESPEY ALBIG

Mr. Albig is Secretary of the Savings Division of the American Bankers Association and Deputy Manager of the Association

NESMITH

WISE SPENDING

"Wise spending is possible only when wise saving has been practiced."

from $66 to $23. Vermont fell from $47 to $75; New Hampshire from $17 to $19 and Maine, largely because of an unusual and regrettable situation, from $36 to $101. The whole district sustained a loss of 5.3 per cent, but the savings per inhabitant continue high, being $517, the largest for any regional group in the United States, with total savings deposits of $4,284,434,000, and depositors numbering 6,478,544.

With such a showing it is not surprising that little is heard of suffering and relief. Here the volume of commercial deposits is dwarfed into insignificance by savings. In the banks of Vermont 91 per cent of the deposits are savings; in New Hampshire, 89 per cent. In Massachusetts where, naturally, the volume of commercial banking in New England is greatest, 77 per cent of the deposits are on the savings side. This state too continues the lead among all the states in having the highest savings deposit per inhabitant. Last year for the first time since 1920 savings deposits in Connecticut failed to show a gain. The slight loss this year gives promise that by another year this southernmost of the New England group, with such a wide variety of industry and agriculture, will again be increasing its savings totals. Connecticut, with interests which require a large volume of commercial money, has 80 per cent of deposits in savings.

It might well be said that much of the savings money in the banks of New England constitutes an investment in savings. Of all the investments into which money has been placed, which ones can show less depreciation over the past three years than these investments in savings?

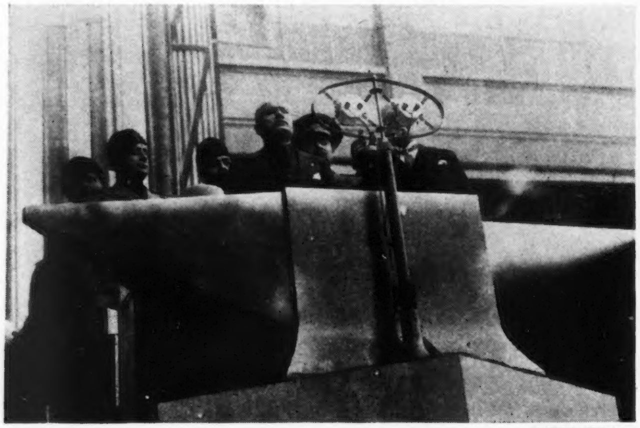
The Middle Atlantic states, with their great density of population and their varied industries, constitute the very citadel of the savings business. Here is found the great bulk of the savings of the country, $10,701,622,000, as compared with $21,424,226,000 for the whole country. The volume of savings in this area constitutes 49.9 per cent of the savings total for the country. New England and the Middle Atlantic states combined raise the percentage to 69.9 per cent. The loss in savings per inhabitant in the Middle Atlantic states was 7.1 per cent, against a loss of 11.5 per cent the previous year. This means that each inhabitant in these states has $28 less in savings than a year ago. Delaware, of all the Middle Atlantic states, shows the least decrease, $4 per inhabitant, or 1.5 per cent, as against a loss the previous year of $5, or 1.9 per cent. The only gain registered in last year's report was that of the District of Columbia, which reported an increase of $2 per inhabitant, or 0.9 per cent.

In the Middle Atlantic states the number of depositors decreased during the year by 1,529,428, representing a population equal to that of the city of Detroit. Although this area represents many of the districts given over to commercial activity, the volume of savings deposits represents 60 per cent of the total individual deposits. In New Jersey the percentage ranks highest, where 74 per cent of individual deposits are on the savings side, and smallest in the District of Columbia with 43 per cent, which is a loss of six per cent from the preceding year. The volume of savings stands at $10,701,-622,000, or $365 per inhabitant, with 16,911,411 depositors. New York leads this group with a savings per inhabitant of $543, which in the whole United States is second only to Massachusetts.

Savings in the southern states have usually fared badly in years of depression because of the absence of a great backlog of savings to sustain the shock. Here, too, the decrease is slighter than that of a year ago, the recession ranging from 2 per cent in Florida and Texas to 15 per cent in Louisiana. The loss per inhabitant in the southern states was $6, or 14.6 per cent, as against $9, or 18 per cent, a year ago.

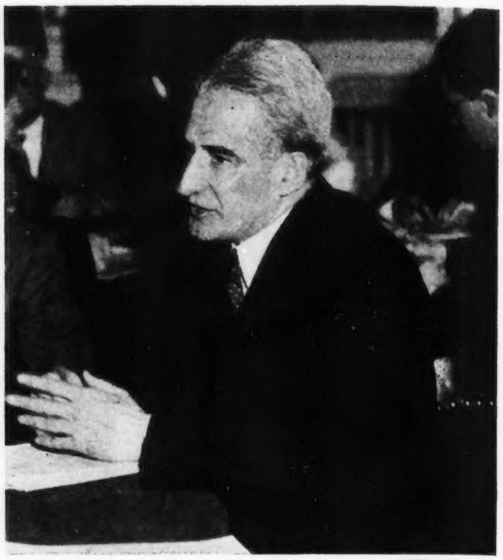
Heavy industries and agriculture constitute the chief business in the southern states. These have all suffered during the past three years. The resourcefulness of the people of that section is shown in the sharp decline in the run-off of savings. Evidence abounds that a reasonable upturn in business or a slight increase in commodity prices would again put savings in this area on an upward trend. Next to the Middle Atlantic states and New England the southern states have showed the greatest gain in savings per inhabitant over 1913. The percentage gain over the 20-year period is 94.4 per cent; Texas leads with a gain of 314.3 per cent, which is greater than that of any other state in the (CONTINUED ON PAGE 44)

The Month



INTERNATIONAL

Mussolini denounces "economic liberalism" in his plan for a "corporate state." In the picture he is using an anvil for a pulpit

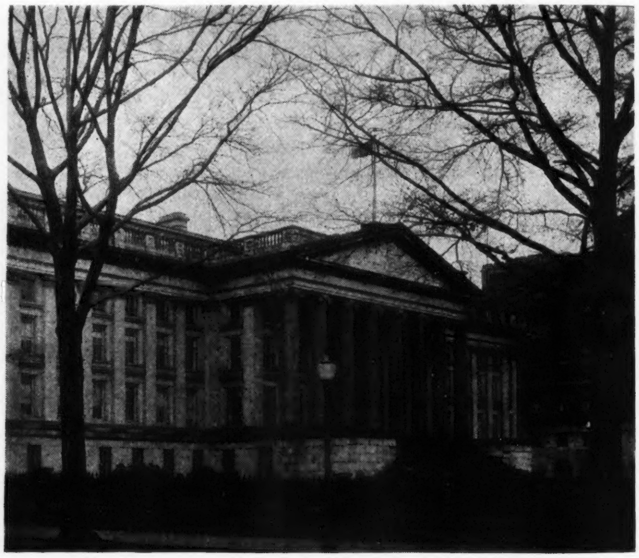


INTERNATIONAL

Gerard Swope, author of the Swope plan for industrial self-government with a minimum of Federal control

KEYSTONE

Ferdinand Pecora, counsel for the Senate's financial investigation, has asked leading banks to furnish facts about security loans



TREASURY. A day after Mr. Morgenthau established rigid control over Treasury news, Dr. O. M. W. Sprague resigned as economic adviser to the Treasury and denounced the Government's fiscal policy

EWING GALLOWAY

The Cornell campus. George F. Warren was professor in farm management at Cornell University when he evolved his plan for a rubber dollar, which we now have in the United States

EDITORIALS

Badgering Banks

"THE time has come when it is for the best interests of the country to stop badgering the banks. . . . As for the charge that the banks will not extend credit, the first and obvious reply is that the banks themselves are made up of the very bone and sinew of the industrial, commercial and agricultural interests of the country. Bank directors, and, to a large extent, bank officers, are drawn from the business and farming population. If they do not feel at any given moment that it is wise to make a particular loan, it is more than probable that there are sound reasons for not making it."—From the Saturday Evening Post, November 4, 1933.

The Government's Gold Policy

WITHOUT pressing the issue of the efficiency or inefficiency of the code system for industry in the general emergency it is apparent that there are other elements in the situation which may have at least as great an influence on the business situation as General Johnson's organization.

Chief of these is the uncertainty of the general business outlook and the chief cause of this uncertainty has been the gold policy of the Government. So long as the future value of the dollar is uncertain there is no disposition on the part of capital to enter upon long term investments. In an absence of long term financing there can be no material outlays in new building, in railway and utility replacements, in new long term enterprises of any sort. In other words the heavy industries are more or less paralyzed. Inasmuch as these heavy industries in normal times account for a very large part of the total industrial production it is quite evident that general improvement is impossible until heavy industry is again active.

TIME TO DECIDE

A GRADUAL realization of the influence of this heavy industry-long term financing cycle upon the general situation has served partly to bring the national gold and monetary policy to a crisis during the past few weeks.

The sharp impact of the gold buying policy upon the market for Government bonds in mid-November was a warning which the authorities were quite quick to heed although it is uncertain how long the effect of the lesson will endure. Yet the influence of the gold policy upon Government securities was far less than it has been upon corporate financing.

The new securities act has been a strong deterrent to new financing in the open market but it is probable that means of avoiding its most restrictive effects would have been found had there been any really strong demand for new corporate financing or if capital had really been ready to enter the long term industrial field. Faced with increasing uncertainty neither capital nor industry has been ready to act. Nor will they act until most of this oppressive uncertainty as to the future is removed.

Such conditions cannot continue indefinitely and it seems plain that the Government must soon make its choice between the issue of unsupported or fiat currency and a return to the gold standard or at least to a more conservative gold policy.

Congress

IN another month N.R.A., A.A.A., and the various alphabetical organizations will face Congress. It will be a friendly Congress on the whole but not so friendly that it will not correct patent abuses, iron out a good many wrinkles in the economic fabric, and perhaps place a limit on further dangerous experimentation.

There has been much disillusionment in people and their representatives in the past few months and there will be more before Congress finishes its work and faces voters a year hence. There are a good many indications that sober second thought will have a big part in shaping economic policies in Washington in the meanwhile.

A change of direction will not require any explanation inasmuch as Roosevelt has not yet announced a port, beyond stating that he is sure that there is land on the other side.

Regarding our destination, there are two main possibilities: either the Administration has not reached a decision or feels it would be better to say nothing about it until later. If the first is true the wise thing would be to slow down before we go too far in the direction of nowhere in particular. On the other hand, if a definite harbor exists, there is a way, perhaps, to discover traces of it through the fog,—namely, by means of the events-test. This is not a satisfactory exercise, of course, because it would be better to have the facts, yet even a guess would be helpful pending an official announcement.

First, disregard entirely every word uttered through speeches or press releases since the beginning of the year. Concentrate entirely on the cold, hard record, week by week. Anyone can make this test either from memory, or by reference to newspaper files. The trend is unmistakable and somewhat startling, in the geometrical sense that it follows a straight line as the shortest distance between two points. It would appear on the basis of this events-test that we are certainly moving toward something definite, although it would be hard to find a name for it. There is a little of everything—Communism, Fascism, Marxism, Capitalism, and other ingredients not so easily identified.

Changes in the Legal Status of Gold Since the Fourth of March

Being a True Chronology of Gold's most Interesting Adventures in the United States, including certain Details of Encounters with Legislation and Decrees

Compiled by HERBERT M. BRATTER

March 6

The Banking Holiday Proclamation

The Act of October 6, 1917, as amended, empowered the President to regulate or prohibit the export, hoarding, melting or earmarking of gold or silver. Under that authorization President Roosevelt, declaring a three-day bank holiday on March 6, proclaimed that no banking institution should "pay out, export, earmark or permit the withdrawal or transfer in any manner or by any device whatsoever of any gold or silver coin or bullion or currency or take any other action which might facilitate the hoarding thereof."

March 6

Treasury Regulation No. 1

The first emergency Regulations of the Treasury forbade the payment of gold or gold certificates. It read as follows:

> *Regulation No. 1 (March 6)*
>
> All Federal Reserve banks and all other banking institutions are authorized to make change by the exchange of currency and/or coin of various denominations, but no *gold or gold certificates* shall be paid out in making change.

Similar strictures with regard to payments in gold or gold certificates appeared in Treasury Regulations No. 4 (of March 6); No. 18 (of March 11); No. 21 (of March 11); No. 22 (of March 11); No. 24 (of March 12); etc.

Regulation No. 21 called for the delivery to the Government of all gold and gold certificates held by Federal land banks, intermediate credit banks, etc., within 30 days of their reopening, such gold to be exchanged for other forms of currency.

March 7

Limited Banking Encouraged Upon Surrender of Gold

The Secretary of the Treasury on March 7 issued a "supplementary regulation" permitting the Federal Reserve banks to make funds available to member banks for exercising the restricted functions then permitted by law, but each member bank was required "to deliver to the Federal Reserve bank in exchange for other forms of coin and/or currency or for credit on its books all gold and gold certificates held by such member bank in its own right."

March 7

Shipment of Earmarked Gold Authorized

The following authorization, of March 7, 1933, was issued by the Secretary of the Treasury, with the approval of the President, permitting the Federal Reserve Bank of New York to ship gold earmarked for foreign governments and foreign banks prior to March 6, 1933:

> Under authority conferred upon me by the President's proclamation of March 6, 1933, declaring a bank holiday, the Federal Reserve Bank of New York is authorized, in the case of gold earmarked for foreign governments, foreign central banks, and the Bank for International Settlements prior to March 6, 1933, to permit the export of such gold to the government or foreign bank entitled thereto under a license by the Secretary of the Treasury specifically authorizing each shipment.

March 8

Listing of Gold Hoarders

On March 8, the Federal Reserve Board requested the Federal Reserve banks to "prepare and forward to the

board as soon as possible after March 13, 1933, as complete a list as can be made from information you are able to obtain of the names and addresses of all persons who have withdrawn gold from your bank or a member bank in your district since February 1, 1933, and who have not redeposited it in a bank on or before March 13, 1933," and authorized them to give publicity to the request. The board also advised them that it had no objection to obtaining similar information regarding withdrawals prior to February 1. On March 9, the board indicated that the request of March 8 applied "to both gold coin and gold certificates." Subsequently, on March 12 and March 18, the board extended to March 17 and March 27, respectively, the final date as of which the lists referred to were to be compiled.

GLOBE

"TO ESTABLISH AND MAINTAIN CONTINUOUS CONTROL"

Such was the President's stated intention when he announced the Government's gold-buying policy October 22

March 9

Emergency Banking Act

In compliance with a request of President Roosevelt, Congress on March 9 passed the Emergency Banking Act (H. R. 1491), approving and confirming recent actions and proclamations of the President and of the Secretary of the Treasury. The Act broadened the scope of the 1917 act referred to above, and strengthened the President's power to control transactions in foreign exchange, gold or silver.

Very significant was the provision enabling the Government to call in gold coin, bullion and certificates:

George L. Harrison is Governor of the Federal Reserve Bank of New York. The New York Bank has been acting as agent for the R.F.C. in making gold purchases abroad

GLOBE

Sec. 3. Section 11 of the Federal Reserve Act is amended by adding at the end thereof the following new subsection:

(n) Whenever in the judgment of the Secretary of the Treasury such action is necessary to protect the currency system of the United States, the Secretary of the Treasury, in his discretion, may require any or all individuals, partnerships, associations and corporations to pay and deliver to the Treasurer of the United States any or all gold coin, gold bullion, and gold certificates owned by such individuals, partnerships, associations and corporations.

March 9

Bank Holiday Prolonged

On March 9 a presidential proclamation prolonged the bank holiday "until further proclamation."

March 10

Statement Regarding Gold

The Secretary of the Treasury on March 10 stated: "The present restrictions on gold will not prevent gold being available for all normal uses in the industrial arts. Methods of distribution for these purposes will be determined by the Treasury."

March 11

Gold Embargo

The following was part of an official statement by the Secretary of the Treasury: "An embargo is imposed upon gold payments, except under license, to prevent gold hoarding.

"This embargo does not mean that every individual who happens to have one or a number of gold certificates in his roll of currency is to be classified as a hoarder and be subjected to invidious publicity or other penalty. The provision is aimed at those who continue to retain quantities of gold and thereby hinder the Government's plans for a restoration of public confidence.

"Already from every quarter of the nation is reported a large and steady current of gold flowing back to the banks, and the people apparently will be prompt in depositing their funds and thereby relieving themselves of the inconvenience and danger of keeping about them large amounts of money."

March 13

Gold for Use in Arts

Gold was released to the arts and industries by Treasury regulation No. 25 of March 13. Federal Reserve banks were authorized to release gold for legitimate and customary uses in trade. (CONTINUED ON NEXT PAGE)

"Vindicated at Last", a cartoon by "Ding" which appeared in the New York Herald Tribune last June 5

April 5

Gold Hoarding Forbidden

The President on April 5 issued an order forbidding gold hoarding and prescribed regulations to carry out his order. The regulations stated in part: "All persons are hereby required to deliver on or before May 1, 1933, to a Federal Reserve bank or a branch or agency thereof or to any member bank of the Federal Reserve System all gold coin, gold bullion and gold certificates now owned by them or coming into their ownership on or before April 28, 1933, except the following."

The exceptions were gold required for legitimate and customary use; gold coin and certificates not exceeding $100 belonging to any one person; and gold earmarked for foreign governments and central banks; gold licensed for other proper transactions including metal imported for reexport.

The regulations provided that gold be exchanged for other forms of currency. Penalties for violation of these regulations were fixed at not over $10,000 fine or 10 years imprisonment, or both.

The order was explained by the Secretary of the Treasury in a statement of April 5, reading:

The President's order of today requiring the turning in of hoarded gold, and at the same time providing that gold shall be available for all proper purposes, is an expected step in the process of regularizing our monetary position and furnishing adequate banking and currency facilities for all customary needs.

Such an order was in contemplation from the time of the passage of the emergency banking act. As the President indicated today, while many of our citizens voluntarily and helpfully turned in their gold, there were others who did not so respond. In fairness, the conduct of all citizens with reference to gold should be the same in this emergency, and this is assured by the order. Those surrendering gold, of course, receive an equivalent amount of other forms of currency, and other forms of currency may be used for obtaining gold in an equivalent amount where authorized for proper purposes.

Gold held in private hoards serves no useful purpose under present circumstances. When added to the stock of the Federal Reserve banks it serves as a basis for currency and credit. This further strengthening of the banking structure adds to its power of service toward recovery.

A vital provision of the order is that authorizing the Secretary of the Treasury to issue licenses for gold for proper business needs not involving hoarding. Applications will be passed upon as the facts in each case warrant.

April 20

Gold Embargo

By Executive Order on April 20, earmarking and exporting of gold was prohibited, excepting the exportation of gold already under earmark, gold imported for reexport in reasonable quantities for usual trade requirements of refiners, gold actually required to fulfill contracts entered into earlier by an applicant who had delivered gold to the Government, and special transactions bearing Executive approval.

April 25

Statement by Secretary Woodin

The statement issued on April 25 called attention to the executive order of April 5. The Secretary said:

> In a final effort to acquaint the public with the requirements of the President's order, and the criminal penalties provided for violations of the order, the Treasury Department is forwarding to every post office and banking institution a printed notice, in the form of a poster and intended for public display, setting forth the Executive order in full. Persons having gold coin, gold bullion, or gold certificates should acquaint themselves with the exact terms of the Executive order.

April 29

Gold for Arts and Industry

Treasury regulations of April 29 made provision where "gold is necessary for the legitimate and customary requirements of the applicant's business, industry, profession or art, within a reasonable time, may permit the applicant to purchase such quantity of gold (not in excess of the amount applied for) as may be necessary for such use upon payment therefor of an equivalent amount of coin or currency coined

or issued under the laws of the United States. The applicant shall keep an exact record of the disposition of such gold."

As to gold exports, the regulations provided a detailed licensing system covering gold permitted to be sent out of the country in accordance with the April 20 order. The April 29 regulations also provided detailed procedure to be followed in the importation of gold-bearing materials for smelting and/or refining and export; also detailed practice to govern acquisition or retention of gold coin, gold bullion or gold certificates for proper transactions not involving hoarding.

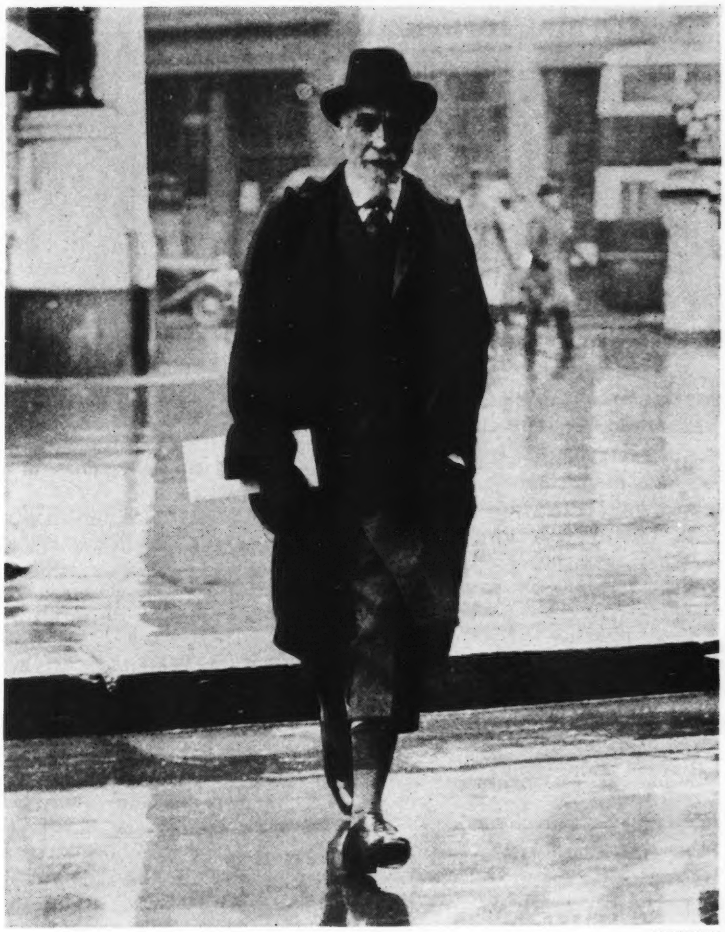
May 12
Inflation Legislation

The well known so-called Thomas inflation amendment to the agricultural act was passed on May 12. It authorized the President to cut the gold content of the dollar 50 percent and/or to establish bimetallism.

May 26–June 6
Gold Clause

On May 6 a joint resolution designed to abrogate the gold clause in existing contracts was introduced in Congress. The resolution was approved by the President on June 6 as Public Resolution No. 10. The explanation of this resolution, as published on May 26, included the following paragraphs:

> Since March 6, when the President declared a bank holiday, transactions involving payments in gold have been brought under control in order to protect and maintain the supply which constitutes a reserve for the nation's currency. Gold is not now paid, nor is it available for payment, upon public or private debts.
>
> Recently the Thomas amendment to the Agricultural Relief Act has made all coins and currencies of the United States legal tender for the payment of every debt, public and private. Due, however, to the language used doubt has arisen whether obligations expressed to be payable in a particular kind of money, such as gold coin, may be satisfied by payment in other forms of legal tender.
>
> While the Supreme Court of New York is reported to have held in a recent case that an obligation calling for payment in gold coin could be satisfied by payment of other lawful forms of money, confusion may be created if the existing legislation is differently construed in other jurisdictions. One of the purposes of the resolution is to remove any doubt and to avoid confusion, so that debtors and creditors may have a clear definition of their legal position.
>
> Another purpose of the resolution is to make clear that future obligations, public and private, shall not contain the "gold clause". The Thomas amendment did not contain specific provision to this effect. Such a provision is contained in the resolution.
>
> The resolution makes it clear that all obligations past and future will be upon the same footing.



KEYSTONE

MR. NORMAN

The Bank of England is one of several institutions that have been watching America's money tinkering with misgivings and mental reservations

The resolution referred to stated:

> *Resolved by the Senate and House of Representatives of the United States of America in Congress assembled*, That (a) every provision contained in or made with respect to any obligation which purports to give the obligee a right to require payment in gold or a particular kind of coin or currency, or in an amount in money of the United States measured thereby, is declared to be against public policy; and no such provision shall be contained in or made with respect to any obligation hereafter incurred. Every obligation, heretofore or hereafter incurred, whether or not any such provision is contained therein or made with respect thereto, shall (CONTINUED ON PAGE 52)

Code Interpretations

Each month the JOURNAL presents a record of developments under the Bankers Code and rulings made by the Banking Code Committee. Such interpretations as are given below are answers to specific questions received by the Committee and subject to confirmation by the N.R.A. Administrator.

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What Institutions Are Affected by the Code?

BINDING EFFECT OF BANKERS CODE UPON ALL BANKS

Question: Inquiry is made whether the Bankers Code, as approved by the President, will be binding upon all banks and trust companies regardless of whether or not they sign the Code.

Answer: Approval of the Bankers Code by President Roosevelt on October 3 makes it the governing law for all banks as defined in Article I of the Code, whether or not they sign the President's Agreement.

CASH DEPOSITORIES

Question: Institutions known as cash depositories, operating under a special act of the state legislature, are not regarded as banks, although they are receiving deposits and are investing largely in Government securities. Are such institutions to be classified as banks within the meaning of the Bankers Code?

Answer: To the extent that such institutions are engaged in business which is in competition with banks, that is, the receiving of deposits and the rendering of service which pertains to the field of banking, they are classified as banks within the meaning of the Bankers Code.

BUILDING AND LOAN ASSOCIATIONS

Question: What is the status of building and loan associations under the Bankers Code?

Answer: To the extent that building and loan associations are engaged in a general banking business in competition with banks, they are governed by the Bankers Code.

MORRIS PLAN BANKS, INDUSTRIAL BANKS, AND SIMILAR INSTITUTIONS

Question: We note that no provision has been made for industrial banks. We are not a national bank, a state bank or a trust company, and do object to being classified, perhaps, as a private bank. Are Morris Plan banks, industrial banks and other incorporated or unincorporated banking institutions, engaged in a similar business, included in the Bankers Code?

Answer: In some states such institutions as above named do not compete in any way with other banks, hence they would not operate under the Bankers Code. In other states such institutions accept deposits and actually compete, in which case they are subject to the Bankers Code.

BANKS OPERATING, RESTRICTED UNDER CONSERVATORS

Question: Please advise whether national banks operating with restrictions under conservators are bound by the state's codes when finally adopted and approved in Washington.

Answer: Banks operating restricted under conservators are considered as operating and in competition with other banks, hence are governed by the Bankers Code and rules of fair trade practices when duly adopted.

INDUSTRIAL LOAN BANKS IN LIQUIDATION

Question: Kindly advise us if in your Bankers Code, industrial loan banks in liquidation are included in this code. If they are so included, is it compulsory that they accept the Code as outlined in Articles V and VI?

Answer: Industrial loan banks in liquidation, not being in competition in any sense with banks and being in the hands of the state liquidating authorities, would not come within the operation of the Bankers Code.

Hours, Wages, Employees, etc.

ADOPTION OF UNIFORM BANKING HOURS OPEN TO PUBLIC—QUESTION OF REDUCTION BY CLEARINGHOUSE ASSOCIATION

Question: Inquiry is made whether the local clearinghouse association in South Bend, Indiana, is permitted under the Bankers Code to shorten its hours to the public by one hour, which will conform to the present hours now established by Chicago banks. At the present time banks are open to the public 33 hours per week and would like to reduce this number to 32. It is stated that such change, if permitted, will not result in a reduction of the number of employees, but that the primary object of the Code in hiring additional employees and adopting a minimum salary scale will be followed.

Answer: Under Article VIII, paragraph (1), Hours of Banking, clearinghouse associations are required to establish uniform maximum hours open to the public, provided, however, that the number of hours so adopted shall not be less than those in effect in a

majority of banks within a given district prior to June 1, 1933. These provisions make it clear that the uniform maximum hours applicable to all banks within the district must be fixed at a figure not less than the number in effect in the majority of banks prior to June 1, 1933. It follows that if, for example, the majority of banks were open to the public 33 hours per week prior to June 1, 1933, the clearinghouse association would not be permitted to adopt less than that number as the maximum schedule. There is however nothing to prevent any bank or banks in the association from observing shorter hours than the maximum established. It should be kept in mind that the purpose of establishing maximum hours is to prevent any bank from exceeding the number fixed, resulting in unfair competition.

MEANING OF WORDS "IMMEDIATE TRADE AREA"

Question: This bank signed the President's Reemployment Agreement as of August 1. We employ two clerks in addition to the cashier. The 1930 census for Columbiana was 2,485, which did not include about 200 people living contiguous to the town but not within the corporation limits. We are located 15 miles south of Youngstown, Ohio, the nearest large city. In regard to Article V, Hours of Employment, section (c) of the Bankers Code, what is the meaning of "not part of a larger trade area"? Are we subject to the 40 hours per week limitation? Is our minimum wage $14.00 or $12.00?

Answer: A tentative definition of the words "immediate trade area" is as follows: It refers to suburban sections in the larger cities and to whole districts which, although not dominated by the same city, are concerned with the same kind of industry or agriculture and are more or less interdependent upon each other. It is suggested that these words be interpreted on the grounds of common sense and in full compliance with the spirit and purpose of the Code. For example, a branch of a city bank located in a suburb of a city where the suburb does not have over 2,500 population would be in a trade area controlled by the hours of employment applicable to the city.

We think that it would be in keeping with the spirit of the Code to regard the population of the town of Columbiana as including those people living contiguous to it although not within the corporation limits. Under these circum-

stances, the 40 hours per week limitation under Article V would apply where the total population in the immediate trade area of Columbiana was in excess of 2,500. The minimum wage of $14.00 as provided for in Article VI, section (1), would likewise apply.

HOURS OF EMPLOYMENT UNDER ARTICLE VIII—APPLICATION TO INEFFICIENT BANK CLERK

Question: Please assume as an example that we hand to one of our staff clerical work which could reasonably be completed in one week of 40 hours. This clerk, however, makes a number of mistakes so that the work is completed in 44 hours instead of 40. Who is to be penalized for this inefficiency, the bank or the clerk?

Answer: Under Article V, paragraph (1), it is provided that "no banking employee shall work or be permitted to work more than forty (40) hours per week averaged over a period of thirteen (13) consecutive weeks." As no exceptions are made in the case of inefficient clerks, this provision will be construed to mean that as long as the bank continues the service of the employee the hours of employment are limited to those fixed in the Code.

It is not the intention of the Bankers Code to interfere with the bona fide exercise of the right of an employer to select, retain or advance employees on the basis of individual merit.

HOURS OF EMPLOYMENT—MAKING UP HOLIDAYS, VACATIONS AND ILLNESS

Question: Does a bank take credit for time out taken by an employee due to holidays, illness and vacation, deducting these hours from the average for the 13 week period in order to ascertain the overtime due, if any?

Answer: No reference is made in the Bankers Code to time taken for holidays, vacations or illness. In view of the objective of the Code to increase employment and in keeping with the spirit of this objective, it is fair to assume that in fixing the maximum-hour limitation, consideration was given by those who drafted the Code to the usual time allowed for holidays and regular vacations with pay, and that such periods were included in arriving at the 40 hours per week basis. If this were not the intention and the employees were required to make up such time, holidays and vacations would have no meaning as a rest period from labor. Based on this assumption, the Code is construed to allow the bank employee credit for holidays and vacations with pay.

In the case of time taken off for sickness, this matter is left entirely to the discretion of the employer. When the employer has made it a practice of allowing his employee a reasonable period of absence with pay because of sickness, the Code should not be construed in such case to change this practice.

FLOORMAN EMPLOYED TO KEEP BANK PREMISES AND ACT AS SPECIAL OFFICER IN LOBBY

Question: Each of the local banks has a number of branch offices, each of which has a floorman, who is engaged to keep the premises clean, maintain the furnace, and do any similar work which might be necessary. During the hours from 10:00 A.M. to 5:00 P.M., excluding lunch period, this floorman appears in the lobby of the bank, in uniform, acting as a special officer. These men are hired by the building department because of the fact that the prime requisite of their job is to keep the building clean. Are these floormen to be considered as included in the banking code or in the building code?

Answer: Where a person is engaged primarily as a building employee whose main function is to keep the premises clean, maintain the furnace, etc., such person shall be governed by the provisions of the building code which is now being considered by the National Recovery Administration. Until such time as the building code is adopted, such person shall be considered as included in the Bankers Code.

CHAUFFEURS, PRINTERS, REPAIR MEN, ETC., EMPLOYED BY BANK

Question: Is it considered that chauffeurs, adding machine repair men and printers employed by the bank are to be included in the Bankers Code?

Answer: Article I, paragraph (2), of the Bankers Code provides as follows: "The terms 'employee' or 'banking employee' as used herein shall mean any person employed by a bank in any

capacity in connection with its banking functions and operations."

Until such time as the persons described in the inquiry are included in their own separate codes governing the class and character of their employment, they will, for practical purposes, be regarded as bank employees within the meaning of the Bankers Code.

Reduction in Salaries of Bank Employees Because Certain Economies Are Necessary

Question: Believing that certain economies are necessary for the good of our institution, we feel that it is necessary to reduce our overhead, and salaries being the principal item affected, I am wondering whether or not we would be at liberty to make such reductions, beginning either now or the first of the year, due to the fact that we have signed the Code. In this reduction we would not reduce the salaries of any employee below the minimum provided.

Answer: Reference is made to Article VI, paragraph (3), of the Bankers Code, which reads as follows: "Employers shall not reduce the compensation for employment now in excess of the minimum wages provided for herein, notwithstanding that the hours worked in such employment may be reduced."

This provision seems to mean that a bank cannot reduce the compensation of any employee for the single reason that his hours of employment are reduced; that is to say, each employee shall continue with the same wages, although working less hours.

In the absence of an official ruling on this point, we venture the opinion that a reduction of salaries in some instances is justified, as for example, where the solvency of the institution itself is affected. The Bankers Code has been drafted to effectuate the policy of the National Industrial Recovery Act in furthering the recovery program by increasing employment and increasing purchasing power. If the reduction which you are contemplating conflicts with this program, we should say it was not justified, but if the reduction of some of the higher salaries is absolutely necessary to continue the bank as a going concern, such reduction indirectly causes increased employment and purchasing power within the bank and would probably be upheld.

It seems quite likely that no hard and fast rule can be applied, but each case must be decided according to the facts. If it can be shown that the bank, by adopting and following fair trade practices with respect to service charges and elimination of waste, might by this economy increase its revenue, then a reduction of salaries would not be in order.

Generally speaking, reduction in salaries is strongly disapproved as being contrary to the spirit of the banking Code. It is further believed that it would be a very unpolitic thing to do at the present time in view of the general attitude taken by labor at the public hearing on the banking Code.

As stated above, each case should be considered on its own merits, and in making a fair decision it would seem that the Bankers Code Committee and the Administrator should be guided by disinterested advice such as might be given by the state banking authority (in the case of a state bank), or by the Comptroller of the Currency (in the case of a national bank).

Charging Cost of Deposit Insurance to Depositor Under Bankers Code

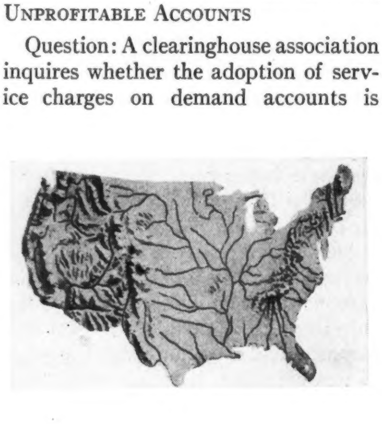
Question: Would it be objectionable for a state association to make provision in its code for charging cost of insurance of deposits to customers?

Answer: It would seem very unwise to write into their rules an express provision charging the cost of deposit insurance to the depositor. Such cost should be part of the general cost of operation upon which the whole schedule of service charge is predicated.

Service Charges

Service Charges Mandatory on Unprofitable Accounts

Question: A clearinghouse association inquires whether the adoption of service charges on demand accounts is mandatory. Its members have, in the past, put into effect certain charges, as on checks returned because of insufficient funds, note collections, etc., but have never adopted charges on demand accounts.



Answer: Article VIII, paragraph (3), of the Bankers Code, provides that "each clearinghouse, county association, county group or state bank association, *shall*, subject to the approval of the Administrator, adopt rules fixing uniform service charges to be charged by banks within such district or group in accordance with the practice now in effect whereby services rendered by banks *shall* be compensated for either by adequate balances carried or by a scale of charges."

The above provision is construed to mean that the imposition of service charges on unprofitable accounts is mandatory. Its interpretation is in accordance with the principle that the bank is entitled to adequate earnings on all banking operations, with each charge adequate to bear its respective share of the burden in accordance with the practice now followed by banks generally.

Service Charges between Banks

Answering several inquiries as to whether charges may be waived in favor of banks in respect to transactions between banks, no such waiver is authorized under the Code. No account shall be carried at a loss to the bank or at the expense of other depositors. Any exception to this rule would be contrary to this policy.

Waiver of Service Charges not Permitted in Cases of Accounts Carried by Husband and Wife Where One Is Subject to Charge

Question: Was it contemplated by the Code Committee that, for charge purposes, balances carried by husband and wife in separate accounts could be consolidated? That is, if a husband carried a large checking account and his wife carried a small one subject to charge, could the charge be waived on the latter?

Answer: No individual accounts are to be carried at a loss to the bank, and it is contrary to the intention of the Banking Code Committee to permit an exception to the policy that the bank is entitled to adequate earnings on *all* banking operations and that each charge is adequate to bear *its respective share* of the burden.

Legal Notes and Digest

INTERPRETATIONS and opinions given here relate to timely legal questions affecting banks. They are summaries, prepared for the JOURNAL by the Legal Department, American Bankers Association, for your information and convenience.

CAPITAL REQUIREMENTS OF NATIONAL BANKS

Sec. 17(a) of the Federal Banking Act, increasing the capital requirements for a national bank, applies only to a bank organized after June 16, 1933.

CAPITAL REQUIREMENTS OF STATE MEMBER BANKS

The capital requirements for admission of a state bank to the Federal Reserve System were materially altered by Section 17(b) of the Federal Banking Act. Such bank must in general have the same capital as a newly organized national bank. Authority to become a member with 60 per cent of that amount of capital was stricken from Section 9 of the Federal Reserve Act. Otherwise there was no change in the requirements as to banks in communities with population over 3,000. In smaller communities, $25,000 capital is sufficient for a bank organized prior to June 16, 1933, and also for one organized thereafter which has such amount of capital, while it participates in the Federal deposit insurance system.

STOCK OWNERSHIP REQUIREMENTS FOR DIRECTORS OF MEMBER BANKS

In construing Section 31 of the Federal Banking Act, preferred stock is to be included in ascertaining both the total capital of the bank and also the amount required to be owned by each director. Stock owned jointly by a director and another will not qualify him.

AFFILIATES

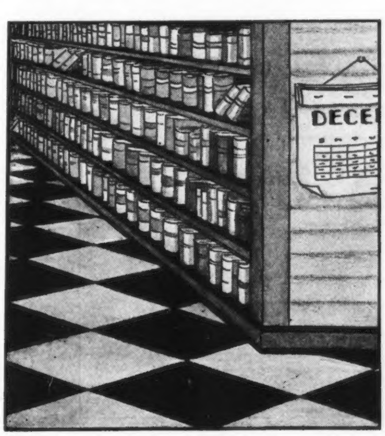
Where two of three directors of a small corporation are directors of a member bank, the corporation is an affiliate, although the bank has 25 directors. To quote Sec. 2 (a) (3) of the Federal Banking Act, the term "affiliate" includes a corporation "of which a majority of its directors * * * are directors of any one member bank."

APPLICATION OF FEDERAL SECURITIES ACT TO BANKS AND TRUST COMPANIES

The Federal Securities Act does not apply to a sale of securities by a bank or trust company either as owner or as fiduciary where it does not make representations concerning such securities, nor to the giving of investment advice not related to securities sold by it to the person advised.

LOANS TO EXECUTIVE OFFICERS

A director, who is not otherwise connected with a bank, is not an "executive officer" within the meaning of Section 12 of the Banking Act of 1933, prohibiting loans by member banks to their "executive officers". This seems sufficiently clear, but in many respects the application of the term is difficult, and sufficient clarification cannot be secured from official sources. Since violations are subject to heavy criminal penalties, banks will naturally be cautious.



INTEREST ON TRUST FUNDS

The prohibition of interest on demand deposits by member banks is extended by the Bankers Code of Fair Competition to all banking institutions, except mutual savings banks and investment bankers. Such prohibition applies to deposits of trust funds. The only method for paying interest on such funds is by making them savings or time deposits. It is by no means clear that the funds have been "accumulated for bona fide thrift purposes," so that savings accounts can be used. Regulation Q does not preclude the purchase of time certificates of deposit nor the opening of "time deposits, open accounts". However, the law in some states requires generally that deposits by fiduciaries must be payable on demand. In such states, deposits of trust funds cannot be interest bearing.

INTERLOCKING PERSONNEL WITH ORGANIZATION LOANING ON STOCK OR BOND COLLATERAL

Section 33 of the Federal Banking Act adds Section 8A to the Clayton Anti-Trust Act as follows:

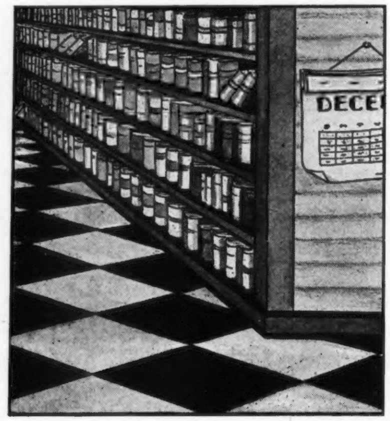
"That from and after the 1st day of January 1934, no director, officer, or employee of any bank, banking association, or trust company, organized or operating under the laws of the United States[a] shall be at the same time a director, officer, or employee of a corporation[b] (other than a mutual savings bank) or a member of a partnership organized for any purpose whatsoever which shall make loans secured by stock or bond collateral[c] to any individual, association, partnership, or corporation other than its own subsidiaries."

(a) This phrase is construed by the Federal Reserve Board (the office of the attorney general of Penn-

sylvania to the contrary) as applying generally only to national banks, excluding member state banks and trust companies.

(b) The term "corporation" includes any incorporated bank, except a mutual savings bank. The Federal Reserve Board may, however, by virtue of Section 8 of the Clayton Act, issue a permit for interlocking personnel with a bank which loans money on stock or bond collateral. See, for details, Regulation L of the Federal Reserve Board.

(c) The ordinary functions of a building and loan association are not deemed to constitute the making of "loans secured by stock * * * * collateral."



FORMS OF CERTIFICATE OF DEPOSIT

The Federal Banking Act of 1933 and Regulation Q of the Federal Reserve Board require drastic revisions of forms of certificates of deposit. Following the approval of forms by the Federal Reserve Board as complying with Regulation Q, the Legal Department undertook the redrafting of forms prepared by it. Bankers gave valuable suggestions and certain forms have been submitted to, and received the approval of, the Bank Management Commission of the American Bankers Association.

In order to afford an option as to forms, the following were prepared:

1. Negotiable certificate payable at a specified date.
2. Negotiable certificate payable at a specified period after date.
3. Negotiable certificate payable on written notice.

The corresponding non-negotiable forms are 1A, 2A and 3A.

The fact that a joint certificate requires a form differing greatly from one issued to a single purchaser led to the drafting of form 4.

The certificate payable on written notice is particularly troublesome and has not yet been perfected by suggestions from practical bankers.

FORM 1. (a) Insert bank transit number, as "74–112". (b) Insert place. (c) Insert "him", "her", or "its". (d) Insert specific date. (e) Maximum under Regulation Q, 3%

FIRST NATIONAL BANK (a)
NEGOTIABLE TIME CERTIFICATE OF DEPOSIT
No.______ $______
______(b)______ ______193__
______HAS DEPOSITED IN THIS BANK
______DOLLARS
PAYABLE TO ___(c)___ OWN ORDER ___(d)___ 193___, UPON SURRENDER OF THIS
(NOT LESS THAN 30 DAYS FROM DATE)
CERTIFICATE, PROPERLY INDORSED, WITH INTEREST AT ___(e)___% PER ANNUM. NO PAYMENT BEFORE, AND NO INTEREST AFTER, MATURITY SUBJECT TO PRESENT AND FUTURE LAWS OF THIS STATE AND OF CONGRESS AND TO REGULATIONS OF STATE AND FEDERAL AUTHORITIES
______ CASHIER

FORM 1A. (a) Insert bank transit number, as "74–112". (b) Insert place. (c) Insert "him", "her", or "its". (d) Insert specific date. (e) Maximum under Regulation Q, 3%

FIRST NATIONAL BANK (a)
NONNEGOTIABLE TIME CERTIFICATE OF DEPOSIT
No.______ $______
______(b)______ ______193__
______HAS DEPOSITED IN THIS BANK
______DOLLARS
PAYABLE TO ___(c)___ ___(d)___ 193___, UPON SURRENDER OF THIS
(NOT LESS THAN 30 DAYS FROM DATE)
CERTIFICATE, WITH INTEREST AT ___(e)___% PER ANNUM. NO PAYMENT BEFORE, AND NO INTEREST AFTER, MATURITY. SUBJECT TO PRESENT AND FUTURE LAWS OF THIS STATE AND OF CONGRESS AND TO REGULATIONS OF STATE AND FEDERAL AUTHORITIES
______ CASHIER

Forms 1 and 1A below are half the standard size for certificates of deposit, 3⅜ by 8⅜ inches. They indicate the general nature of all the forms.

(*The Legal Department is giving consideration to the use of "time deposits, open accounts" as a substitute for certificates of deposit.*)

INTEREST ON CERTIFICATE OF DEPOSIT

A bank issuing after June 16, 1933, a 4 per cent time certificate of deposit maturing after October 31, 1933, cannot under Regulation Q pay interest in excess of 3 per cent accruing after October 1, although such certificate was issued prior to the promulgation of the Regulation on September 1, 1933.

SET-OFF BETWEEN BANKS

A claim which a bank holds not as owner but as collection agent cannot be set off against an insolvent national bank according to the United States Supreme Court decision in Dakin v. Bayly, rendered November 20, 1933.

UNINDORSED ITEM PAYABLE TO ONE JOINT DEPOSITOR DEPOSITED BY THE OTHER

If a bank receives on deposit in a joint account from one depositor an item payable to the other, without the latter's indorsement, and then permits the former to withdraw such fund, the payee may claim that he never authorized any such deposit and that the bank must make good the amount. The danger in such practice is obvious. It can be avoided by the addition to the signature card of a clause reading:

"Each depositor authorizes the other to indorse for deposit in the joint account any instrument payable to his order, or to the order of both joint depositors."

COLLATERAL NOTE FORMS—RIGHTS TO SUBSCRIBE AND STOCK DIVIDENDS

Because of an unfortunate and apparently unsound recent judicial decision, it seems desirable to include in collateral note forms a reference to rights to subscribe, which are incidental to stock pledged. At the same time, mention may be made of stock and cash dividends. The following phraseology is suggested: "together with all cash and stock dividends on corporate stock pledged and all rights to subscribe arising therefrom."

If some one asks questions about *Operating Costs*

you'll be glad you sent for this portfolio of facts

"I'D RATHER be able to explain how costs can be reduced," says one bank executive, "than to explain why they haven't been. That's why I sent for the Recordak Portfolio."

This new portfolio brings you important facts. It shows how Recordak cuts bookkeeping costs 30% and more — with increased fraud protection, and greater customer satisfaction.

It also shows how to cut transit costs 40%. How to reduce mail and messenger fees . . . storage space . . . filing space. And how to make bank operation quieter, speedier and more dependable than ever before.

This portfolio is free, and the methods it describes involve no capital outlay. Their cost is far overshadowed by the savings achieved. Savings already demonstrated in hundreds of banks.

For these reasons you will want the new Recordak portfolio. It explains Recordak completely and in detail. Six separate sections present the story from the viewpoints of various bank departments, including *new business.* The portfolio is completely illustrated, and full descriptions of routines are given. It is literally a handbook of operating method.

Send for this portfolio—it is awaiting your inquiry. Tear out the coupon, forward it today.

NRA MEMBER U.S. WE DO OUR PART

RECORDAK

SUBSIDIARY OF EASTMAN KODAK COMPANY

RECORDAK CORPORATION, 4
Subsidiary of Eastman Kodak Company,
350 Madison Avenue, New York City.
Please send *new Recordak Portfolio* to

Name ____________________
Bank ____________________
Street ____________________
City ____________________

Conservatism May Return

The Huddle in Washington • NIRA's Reputation • Sober Second Thought • Agricultural Machinery Creaks • Confidence in the Dollar • Credit Inflation

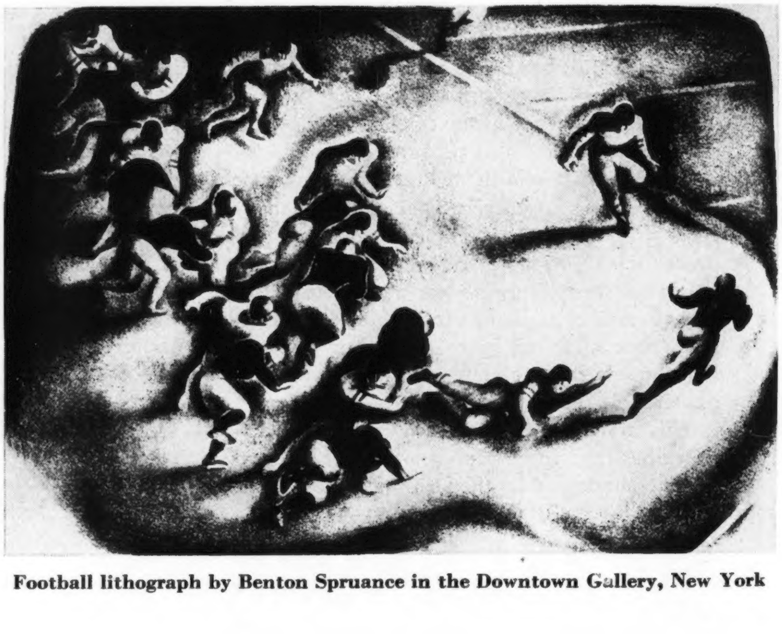
Washington, D. C.

As promised by President Roosevelt in his famous football simile, there has been some shifting of the team and some changes in strategy, but in general the game in Washington is proceeding along lines laid down by the Presidential quarterback eight months ago. Ever since the National Recovery Administration took form it has been believed by those most conversant with the situation that the first important crisis in the system would come in November. How far the developments of the past four weeks mark a crisis may be a matter of opinion. At all events the Governmental authorities have gone into a huddle and several facts are evident. The past four weeks have witnessed the first serious articulate opposition to the recovery program, the first serious questioning of the success of the enterprise on the part of its friends and supporters, and the first special effort on the part of the Federal authorities to "sell" the proposition to the agricultural districts.

This last development was made necessary by the first. The increase in the cost of living resulting from an advance in prices generally from March onward has struck the farmer as something undesirable, although as a matter of fact the advance in the price of farm products has been greater than that in any other commodity group. The N.R.A. was blamed for the situation rather unfairly but, whether fair or not, the agitation against it had to be met. It was met by what in legal parlance would be called a plea of "confession and avoidance." Higher prices for manufactured products were admitted, but the farmer was asked to wait his turn. To hasten the latter the paying out of bounties was speeded up, agricultural credit machinery was accelerated, and new and more liberal loans on crops were promised. The clash of interests between the farmer and the industrial worker is acknowledged, but Secretary Wallace thinks that if the two horses in the team will pull together the wagon can be dragged out of the mud.

More serious, perhaps, is the fact that many supporters of the industrial recovery program have commenced to question its efficacy, and there are divided councils in Washington. Increased wages and shorter working hours for individual labor have not brought about increased wages for labor as a whole or the increased buying power anticipated —at least any increase in buying power has not been registered in increased sales and improvement in business. This is a stubborn fact which no amount of theorizing can nullify, and both business and labor file complaints and enter caveats. Consumers complain of the higher cost of manufactured goods and the higher cost of living, and the take-off of manufactured goods is below expectations. There are complaints that many industries are becoming monopolies, and the monopolistic tendency of the N.R.A. is coming to the front. In short, after the speculative whirl in May-July due to anticipation of inflation and higher prices generally, business has again reached a dead center. Hence arched eyebrows over Nira and a disposition to question whether she is as good a housekeeper as her recommendations indicated.

The situation of agriculture has not materially improved in spite of the hundreds of millions of dollars in direct bounties paid to the farmers. Fifteen per cent of the cotton acreage was plowed under last summer for the purpose of restricting production; yet the cotton crop for the current year is estimated at over 13,000,000 bales or not far from the immense crop of last year, while, as a (CONTINUED ON PAGE 68)



Football lithograph by Benton Spruance in the Downtown Gallery, New York

The Konversionskassemark

Germany's Detour Around Inflation

STEADFASTLY maintaining her own exchange, the reichsmark, on a gold basis, Germany has recently adopted a new method of making modified payments on external obligations. Through an unusual plan of scrip disbursements she has evolved a system of paying her foreign creditors one-half in cash and, in effect, one-half in trade.

Thus, Germany is today not only taking steps to improve, at least partly, her foreign credit situation but is also able to enjoy virtually the same foreign trade advantages that England, America and other countries have secured by depreciating their currencies.

The plan, which is temporary, is already in full effect in London and in other European centers. The delay in making the scrip issue available to the American coupon holders of German bonds is due in part to requirements of the Securities Act here.

The plan for scrip, or konversionskassemark, was first conceived under the German transfer moratorium of June 6, last, and was elaborated during subsequent conferences between representatives of bondholders and Dr. Hjalmar Schacht, president of the Reichsbank. A tentative agreement applicable for the final six months of the year was then reached for partial payments of coupons by Germany on all her foreign obligations, except those under the Dawes Plan, the Young Plan and the Potash Loans.

Faced with the many difficulties of dwindling export surpluses, internal deficits, financial plight of agriculture and heavy unemployment, Germany had found it impossible to obtain sufficient foreign exchange to meet her external obligations when they fell due. The emergency called for making a choice between either complete default on her immediate foreign debts or abandonment of her gold standard. The latter alternative would have led to inflation. Placed, thus, between the anvil and the hammer, the Reich central bank authorities, inherently sound and conservative in policy, struck the middle course.

That their decision to adopt the scrip plan has been beneficial is manifested by an increasingly favorable foreign trade balance for Germany, reports to the contrary notwithstanding, and by indications that foreign debts are no longer seriously bothering her.

Regulations for scrip payments were declared effective as of October 1. In practice the new plan provided that dividends on shares and interest and amortization on industrial and bank bonds due any foreigner after July 1, 1933, should be paid in reichsmarks to a department in the Reichsbank, the Konversionskasse. From this central account the foreigner is given the opportunity to receive 50 per cent cash of the gold reichsmark value converted into foreign exchange and 50 per cent in scrip. The scrip will be purchased by a bank consortium, organized in the bondholder's country, at 50 per cent of its face value, thereby giving the foreign creditor in all a total of 75 per cent on his valuta claim. The consortium, in its turn, will sell the scrip that it accumulates to the Deutsche Golddiskontbank at a rate of, say, 52½ per cent.

Accumulated scrip at the Golddiskontbank is made available to the German exporter under an arrangement which will enable him to compete favorably in world markets. The law is, of course, so construed that "dumping" shall not be allowed. When an exporter applies for scrip he is asked to produce detailed and bona fide evidence that it is impossible for him to meet the foreign prices. If his application is approved, he is authorized to borrow scrip from the Golddiskontbank at 55 per cent and then sell this to the Konversionskasse at 100 per cent. The 45 per cent rebate that he will gain represents, in effect, a government subsidy and enables him to market his goods abroad at a large reduction from their normal price.

The introduction of the scrip plan has added another blocked mark to the already existing half-dozen blocked marks in Germany. The registermark and the many sperrmarks including altguthaben-, noten-, kredit- and effekten-, each represents some ingenious innovation on the part of the Reich banking authorities to discourage the flight of currency from Germany. Controlled from the source of income, all free capital credited to foreign investors is directed through elaborate accounting systems into specific uses and purposes within the national boundaries of Germany.

There is an admitted likelihood that Germany, to meet changing conditions, will in the future continue to invent new systems of blocked marks to supersede existing systems. At the present the use of the new scrip indicates that Germany may be ready to make definite concessions during the forthcoming standstill conferences in return for assurances that she will be allowed to pay some substantial part of her obligations through trade advantages.

THIS WAS INFLATION. ONCE WAS ENOUGH

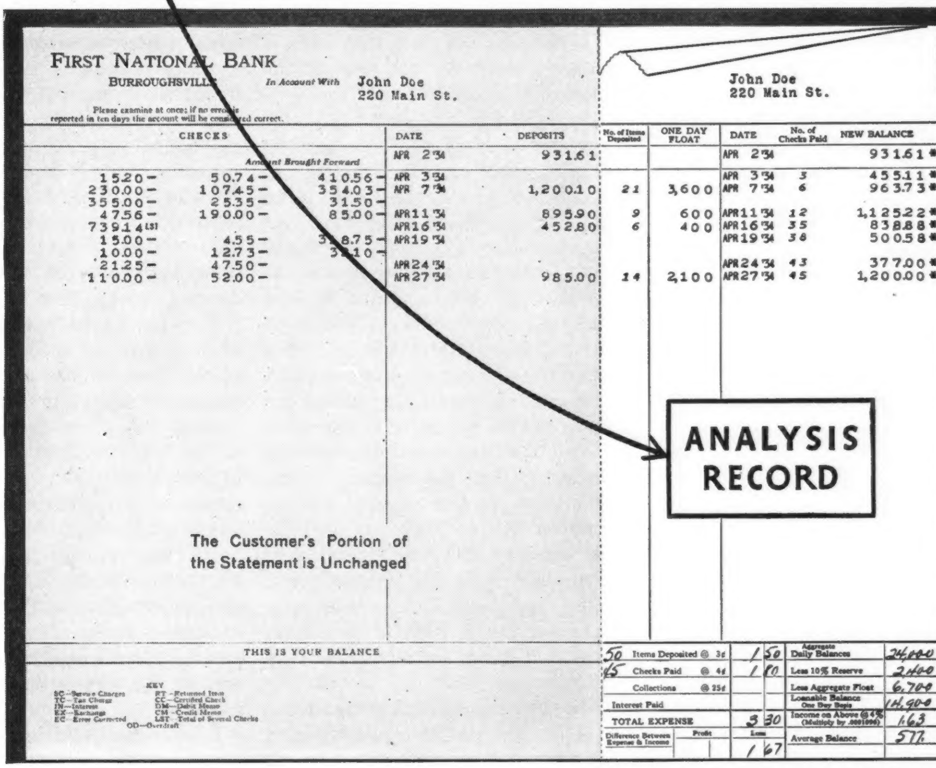
The printing of German stamps in the early 20's could not keep up with the shrinking mark value. Surcharged values of millions and even billions of marks were hurriedly printed over the original denominations

Under any plan of

COMPUTING SERVICE CHARGES

REQUIRED BY THE BANKERS CODE

this statement stub contains the figures needed



This typical analysis record is detached from the statement and becomes a permanent record for the bank. The stub may be designed to provide whatever analysis or service charge information the individual bank requires. Note also what an excellent form it is to show customers when explaining the service charge.

● Whether a bank is now making a service charge or planning to install one because of the Bankers Code, Burroughs offers a simple means for compiling the necessary figures. While posting the statement, the latest Burroughs Bookkeeping Machine prints the information from which to compute the service charge. This neat, legible record is made quickly on a stub part of the statement, later detached and retained by the bank. This eliminates the need for a separate analysis record. Moreover, the machine retains all the regular Burroughs advantages in posting. Investigate through the nearest Burroughs office.

BURROUGHS ADDING MACHINE CO., DETROIT, MICH.

Burroughs

Banks as Sources of Capital Funds

(CONTINUED FROM PAGE 19)
which alter the situation. But before investigating that aspect of the matter it may be well to consider what results would follow maximum use of present excess reserves.

Few people realize that the attempt to use the huge excess reserves, created through the Reserve's open market operations, would result in a total expansion of bank credit far beyond the amount of any conceivable deficiency in circulating purchasing media. The effects of the process can be shown by a specific example. Assuming that average reserve requirements are 10 per cent of demand deposits, and that there are but two member banks in the country, use of existing excess reserves would result in the following situation prior to open market purchases by the Federal Reserve banks:

Deposits	*Reserve*
Bank A	
10,000,000,000	*1,000,000,000*
Bank B	
10,000,000,000	*1,000,000,000*

Let it be assumed that open market Federal Reserve purchases increase the reserves of Bank A so that the total reserve of this institution is $1,800,000,000, and that Bank A invests this excess reserve by purchasing various bonds from customers of Bank B. The situation in the two banks will then be as follows:

A–10,000,000,000	*1,000,000,000*
B–10,800,000,000	*1,800,000,000*

Bank B's deposits are increased by $800,000,000, which in turn increases the required reserve of Bank B to $1,080,000,000. Therefore, Bank B will then have excess reserves in the amount of $720,000,000. Assuming that Bank B in turn purchases various bonds from customers of Bank A, spending $720,000,000 for that purpose, the situation will then be:

A–10,720,000,000	*1,720,000,000*
B–10,800,000,000	*1,080,000,000*

It is apparent that Bank A will have excess reserves in the amount of $648,000,000. If Bank A then makes use of these excess reserves to purchase bonds from the customers of Bank B, the situation will be as follows:

A–10,720,000,000	*1,072,000,000*
B–11,448,000,000	*1,728,000,000*

And once again it is plain that Bank B has excess reserves, this time in the amount of $583,200,000.

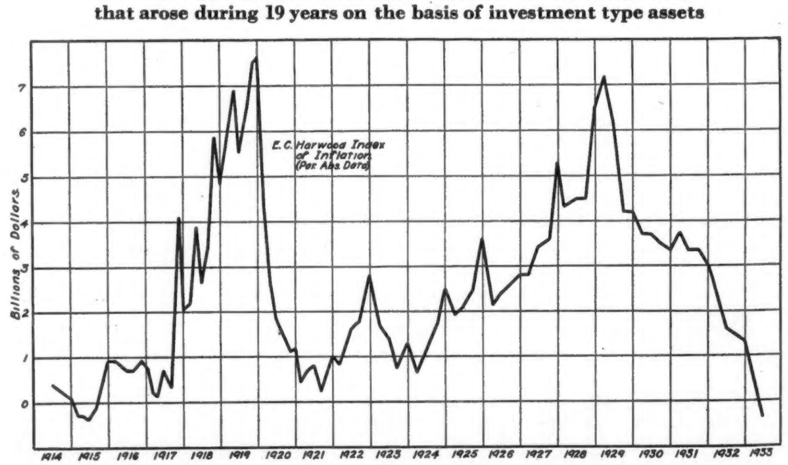
It is probably unnecessary to carry this process on to completion in order to illustrate what occurs. Speaking in mathematical terms, the result is an infinite series with a finite sum, and at the conclusion of the process it would be found that the banking system, as represented by Banks A and B, had made new investments in the total amount of $8,000,000,000, or ten times the excess reserves on the basis of which the process was begun. Deposits of the banking system would of course have increased by a like amount, thus making it necessary for the original *excess* reserve to be used as *required* reserve. It may be well to point out that the result would be the same regardless of the number of banks involved, and whether the Federal Reserve bank open market purchases resulted in excess reserves for one or for all banks. It is fairly obvious that if the process described above were carried through to completion, the resulting new demand deposits would greatly increase the purchasing media in circulation. Presumably, aggressive operations along these lines would result in a speculative boom of mammoth proportions.

Parenthetically, it may be wise to mention the arguments presented by the so-called "Committee for the Nation to Rebuild Prices and Purchasing Power". A few weeks ago this body urged President Roosevelt to issue $7,500,000,000 in new currency in order to offset the deflationary effects of bank closings. It was the contention of this group that approximately that amount of deposits had been frozen in closed banks during the past four years. No consideration was given to the fact that a major portion of the deposits thus frozen were time and savings deposits, and therefore had not been in use as circulating purchasing media. The amount of these deposits which had actually not been used by the banks concerned for investment purposes is unknown, but it must have been something less than the total amount of demand deposits involved.

The important point, however, is whether there are special circumstances at this time which would justify the process of expansion by means of investing bank credit to some degree. Of course, if the credit inflation which was so great in 1929 had not been deflated, there would be little excuse for an attempt of this kind. The facts are, however, that all of the excess credit originations of the unfortunate boom period have now been liquidated, and in addition hoarding of currency and bank failures have forced an even greater amount of deflation than was, perhaps, necessary.

It is extremely difficult to obtain exact

The curve in Professor Harwood's chart shows the excess credit that arose during 19 years on the basis of investment type assets



figures which would permit the degree of precision which is really desirable. Approximately $2,400,000,000 in deposits of banks which were closed last March are still frozen. Probably at least $1,000,000,000 of this total consisted of demand deposits. In addition to this amount, currency hoarding, including hoarding of gold, is estimated to be in the vicinity of $1,750,000,000. The Federal Reserve banks had already offset a large portion of the currency hoarding by their open market purchases in the spring of 1932. Apparently there is an amount which is between $1,000,000,000 and $2,000,000,000 now frozen or hoarded which could legitimately be offset by expansion of credit, as described above.

In order to add to circulating purchasing media in the amount mentioned it would be necessary for the member banks of the Federal Reserve System to make new investments or new non-self-liquidating, but solvent, loans, using excess reserves for that purpose (the word "solvent" is considered more appropriate to enterprises or projects taken as a whole which are expected to pay over a period of years. Commercial loans covering only a brief transportation and marketing period are considered "self-liquidating"). The effect is the same whether this excess reserve credit is used for direct investments or is lent to business men. In either event, demand deposits are expanded.

The answer to the problem which now confronts the bankers of the country is, therefore, that a limited use should be made of the excess reserves being provided by the Federal Reserve banks. Care must be taken to guard against expansion beyond that justified by special current circumstances.

•

OH, YEAH!

SHOEMAKER IN THE CHICAGO DAILY NEWS

NESMITH

The continued decrease in time deposits in the United States makes people less able to finance themselves and thus become a factor in improving business conditions. They depend more and more on subsistence from local, state or Federal sources

Purchasing Power

(CONTINUED FROM PAGE 25)

United States and only topped by the District of Columbia. Arkansas ranks second with a gain of 233.3 per cent. It is outranked only by the District of Columbia, Texas, Oklahoma and Delaware.

Savings in the east central area fared badly this year, declining from $126 per inhabitant to $83. The loss per inhabitant is 34 per cent. The volume of savings now stands at $2,866,050,000, as against $4,340,663,000 a year ago, a decrease of $1,474,613,000, or 34 per cent. This area suffered severely through bank closings.

Michigan alone witnessed a decline of $539,000,000 and Illinois almost half as much, with Ohio not far behind. The loss per inhabitant in each state was large, ranging from $18 in Missouri to $109 in Michigan. The loss in individual deposits was considerable, being $1,769,743,000. Savings deposits comprise 49 per cent of the total individual deposits as against 57 per cent a year ago.

The loss in the number of depositors is enormous, being 2,402,780, which is greater than the decrease in depositors in the New England, the Middle Atlantic and the southern states combined.

The poor business conditions existent in the west central states are indicated by the decrease in savings deposits in banks, which dropped during the past year from $528,305,000 to $433,227,000, a loss of 18 per cent. The depositors decreased from 1,074,719 to 924,584 or 150,133.

Each person in this area has $10 less in savings in the bank than a year ago. The percentage loss from a year ago is 17.8 per cent, which is only slightly less than the loss of 18.8 per cent registered last year from the preceding one.

Individual deposits in this group declined from $1,056,376,000 to $965,471,000. The percentage of savings deposits in individual deposits changed during the year from 50 per cent to 45 per cent. In no state in this area did the savings deposits rise above last year.

The district has lost 51.6 per cent from the volume per inhabitant established ten years earlier in 1923, and has improved over 1913 only 9.5 per cent. Four states, North Dakota, South Dakota, Nebraska and New Mexico, had a greater volume of savings deposits per inhabitant in 1913 than during the present year.

Utah in the Pacific group of states was the one state in the country which showed a gain in savings deposits over last year. They increased from $47,658,000 to $49,373,000. Utah also had a gain of $617,000 in individual deposits, it being one of four states—Delaware, Louisiana, Kansas and Utah—to show a gain in individual deposits.

The Pacific states were able during the year to stop the drastic decline in savings, so that this year the recession is but $16 per inhabitant as against $36 a year ago, while the percentage loss is 7.7 per cent against 14.8 per cent a year ago. The loss in savings is particularly emphasized by comparison with the deposits of ten years ago. This year's volume marks a loss of 13.9 per cent from that of 1923.

Thus in every section of the country the brunt of the decrease in individual

deposits has been felt by savings deposits, a most unusual picture. The only feasible explanation is that commercial deposits arising out of discounts had so nearly reached the vanishing point that any considerable further recession through that cause was scarcely possible. Savings deposits were depleted because of the demands made upon them through the necessity of their owners.

Hawaii reverses the whole picture, showing an increase in savings per inhabitant during the year of $5, with a percentage gain of 4.4 per cent over last year. The number of depositors however suffered a loss, decreasing from 172,436 a year ago to 165,756. The increase in the volume of savings was $2,066,000.

It would be a fruitless job to attempt to point out the factors in these areas which made for decreased deposits. All business was in eclipse. All industry was in a declining cycle, which forced prices to the lowest point in years. The surprising fact is the relationship existing between savings deposits and depositors. The present volume of savings is only slightly greater than that reported on June 30, 1924, and the total number of depositors exceeds that of 1924 by only about 500,000.

In the loss of savings and the decrease in the number of depositors is, of course, found the true significance of the savings business in relation to national prosperity. Savings enable their owners a certain freedom of movement, in living, in traveling, in buying and in enjoying, more nearly to the full, cultural advantages and creature comforts. As the number of persons having accounts is reduced, purchases are still more restricted. Who can figure the loss of buying which will be registered in 1934 because of the closing out of more than 5,000,000 accounts this year?

The continued decrease of time deposits in the United States makes people less able to finance themselves and thus become a factor in improving business conditions. They depend more and more on subsistence from local, state or federal sources.

POSTAL SAVINGS

Postal savings redeposited in banks during the year increased from $614,101,000 to $765,887,000, an increase of $151,786,000. As reported by the Post Office Department, deposits in postal savings on June 30, 1933, were $1,184,948,200.

Although the Postal Savings System has been frequently mentioned in the newspapers and has been eulogized as a helpful factor in the national life of the country, the basis for its organization, the reasons for its existence and the methods of its operation are not generally known. Those who favor postal savings attribute to its functioning all virtue; those who oppose it regard it as a leech which sucks the blood of the commercial life of the nation. It has virtues; it likewise has many drawbacks. The difficulty of correcting its shortcomings is its political organization.

On June 25, 1910, the United States Postal Savings System was organized by virtue of the signature of President Taft to legislation which had been introduced by Senator Thomas H. Carter of Montana on January 26 of that year. On January 3, 1911, the doors of post offices were opened for the receipt of savings deposits.

It was claimed that this legislation would, first, (CONTINUED ON PAGE 70)

SUMMARY OF SAVINGS DEPOSITS AND DEPOSITORS IN THE BANKS AND TRUST COMPANIES OF CONTINENTAL UNITED STATES COMPILED FROM REPORTS RECEIVED BY THE SAVINGS DIVISION, AMERICAN BANKERS ASSOCIATION
(June 30, 1933)

States	Savings 1933 (000 omitted)	(1) Per Inhab., Savings, 1933	Loss in Savings per Inhab., 1933 Over 1932	Per Cent Loss in Savings per Inhab., 1933 Over 1932	Per Cent Loss in Savings per Inhab., 1933 Over 1923	Per Cent Gain in Savings per Inhab., 1933 Over 1913	Number of Savings Depositors
Maine	$ 217,631	$271	$101	27.1	15.0	34.2	446,688
New Hampshire	214,164	457	19	3.9	+17.8	86.5	351,634
Vermont	155,468	431	75	14.8	2.3	62.0	272,681
Massachusetts	2,507,635	581	23	3.8	+31.7	126.1	3,645,452
Rhode Island	340,905	486	27	5.3	+17.7	78.0	383,169
Connecticut	848,631	515	13	2.5	+30.7	91.4	1,378,920
New England States	**4,284,434**	**517**	**29**	**5.3**	**+24.6**	**103.5**	**6,478,544**
New York	7,033,978	543	28	4.9	+30.5	149.1	9,382,998
New Jersey	1,109,631	265	26	8.9	+ 7.7	145.4	2,274,455
Pennsylvania	2,017,280	206	24	10.4	+ 6.7	154.3	4,310,311
District of Columbia	83,172	168	69	29.1	+13.5	441.9	180,499
Delaware	62,204	258	4	1.5	+41.7	239.5	118,762
Maryland	395,357	238	44	15.6	+11.7	116.4	*644,386
Middle Atlantic States	**10,701,622**	**365**	**28**	**7.1**	**+ 7.8**	**151.7**	**16,911,411**
Virginia	196,629	81	9	10.0	+ 2.5	170.0	424,616
West Virginia	100,996	57	10	14.9	38.7	16.3	241,247
North Carolina	55,793	17	4	19.0	63.0	6.3	*361,666
South Carolina	21,298	12	8	40.0	80.3	−55.5	44,507
Georgia	103,870	36	4	10.0	16.3	111.8	328,068
Florida	69,611	45	2	4.3	48.9	60.7	*170,553
Alabama	65,181	24	3	11.1	25.0	118.2	236,925
Mississippi	48,657	24	4	14.3	40.0	166.7	*93,453
Louisiana	91,299	42	15	26.3	27.6	82.6	*558,782
Texas	174,807	29	2	6.5	+26.1	314.3	*304,299
Arkansas	37,725	20	3	13.0	25.9	233.3	76,618
Kentucky	124,337	47	7	13.0	27.7	123.8	286,848
Tennessee (3)	99,582	37	11	22.9	36.2	117.6	187,425
Southern States	**1,189,785**	**35**	**6**	**14.6**	**35.2**	**94.4**	**3,315,007**
Ohio	781,215	115	36	23.8	27.6	38.6	2,095,284
Indiana	159,917	49	30	38.0	54.2	4.3	*170,538
Illinois	583,925	75	33	30.6	53.7	− 1.3	1,826,567
Michigan	270,872	54	109	66.9	71.4	−50.9	830,862
Wisconsin	315,437	105	36	25.5	29.1	50.0	1,079,005
Minnesota	332,296	128	36	21.9	38.7	34.7	*827,771
Iowa	169,266	68	35	34.0	70.0	−43.8	*458,754
Missouri	253,122	69	18	20.7	25.0	56.8	*825,084
East Central States	**2,866,050**	**83**	**43**	**34.1**	**47.8**	**5.1**	**8,113,865**
North Dakota	31,638	46	13	22.0	71.1	−37.8	43,199
South Dakota	28,027	40	18	31.0	80.6	−46.7	*48,328
Nebraska	65,409	47	18	27.7	63.8	−24.2	173,220
Kansas (4)	79,165	42	6	12.5	32.3	50.0	222,347
Montana	43,849	82	11	11.8	18.8	43.8	*70,879
Wyoming	17,658	76	11	12.6	38.2	31.0	30,653
Colorado	82,668	79	14	15.1	34.2	33.9	187,827
New Mexico	5,711	13	9	40.9	65.8	−35.0	10,177
Oklahoma	79,102	32	4	11.1	17.9	255.5	*137,954
West Central States	**433,227**	**46**	**10**	**17.8**	**51.6**	**9.5**	**924,584**
Washington	150,458	94	20	17.5	10.5	62.1	284,504
Oregon	88,242	90	10	10.0	17.4	109.3	210,115
California	1,618,334	267	52	16.3	22.2	54.3	2,779,098
Idaho	18,109	41	13	24.1	16.3	57.7	39,858
Utah	49,373	95	+2	+2.2	17.4	35.7	153,276
Nevada	5,412	58	121	67.6	68.8	−15.9	*16,773
Arizona	19,180	42	2	4.5	38.2	50.0	*40,698
Pacific States	**1,949,108**	**192**	**16**	**7.7**	**13.9**	**77.8**	**3,524,322**
United States	**21,424,226**	**170**	**24**	**12.4**	**4.5**	**91.0**	**39,267,733**
Hawaii	45,303	119 (2)	+ 5	+ 4.4	....	....	165,756
United States & Hawaii	**21,469,529**	**170**	**24**	**12.4**	**4.5**	**91.0**	**†39,433,489**

†Includes complete reports from national banks in all states and from state chartered banks and trust companies in thirty-four states.
+Decrease.
−Increase.
*No report of depositors in state chartered banks and trust companies received for 1933. Last reported figures used.
(1) Estimated census for July 1, 1933.
(2) Estimated census for July 1, 1932.
(3) June 10, 1933.
(4) May 31, 1933.

A Brief Guide To Bank Profits

THIS is the time of year when bankers are studying their balance sheets and searching for means by which 1934 can be made a more satisfactory year from the standpoint of net earnings.

Net earnings these days are fully as dependent upon the control of costs as upon the development of income, and some sort of budgetary control is necessary to keep expenses within safe and reasonable bounds.

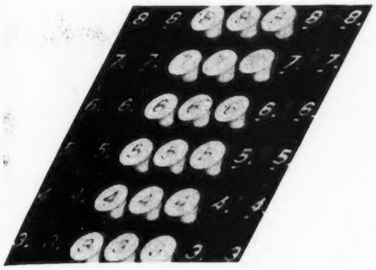
While a detailed accrual accounting system is the best protection, there are alternatives which can be utilized in its stead under certain conditions, and the Bank Management Commission of the American Bankers Association makes this recommendation to meet such circumstances.

Break down your expenses into six major heads as follows:

Salaries. Under this head, list the salaries, fees and wages of directors, officers and employees. Compare these with the similar expenses of other banks. Keep them within a certain percentage of gross earnings, with a particular eye on the possibilities for taking care of "peak loads" without the employment of extra help.

Operating expenses. Under this heading should be listed stationery, printing, postage, insurance, dues and subscriptions, legal expense, traveling expense and the purchase of or depreciation on equipment. By carefully budgeting these items it is possible to secure important economies, particularly in the first two items, where savings depend upon ability to get quantity prices or on competitive bids.

Occupancy expenses. These include rent, real estate taxes, insurance on building and equipment, maintenance, depreciation, light, heat and water. These expenses vary widely between banks, and, while they are not as con-



trollable as other items, require thoroughgoing study.

Capital and extraneous expenses. These include capital and income taxes and others not properly chargeable against current operations. Special legal fees, the costs of consolidations and unusual donations are some of the factors which come under this classification.

Departmental expenses. Where there are special departments, such as trust, title insurance, safe deposit, etc., their running costs should be a direct charge against them. These costs should include not only direct salaries and a share of the rent and light, but a reasonable proportion of executive salaries, directors' fees, etc. Frequently a special department is run at a loss which constitutes a serious drain on the bank and which must be brought out in the open for immediate constructive action.

Advertising. Advertising should be a separate item. When buried among the details of operating expense, it is too apt to become a catch-all for contributions and a dozen other unproductive items of outlay. The public relations needs of banks today are too serious to be relegated to such a position, and there never was a time when it was more necessary to see that every advertising dollar is wisely and profitably used. This can best be accomplished by making it a separate item in your budget.

Separate income accounts should be maintained to show separately the profit or loss on securities, income from other departments and such other income not arising specifically from banking operations.

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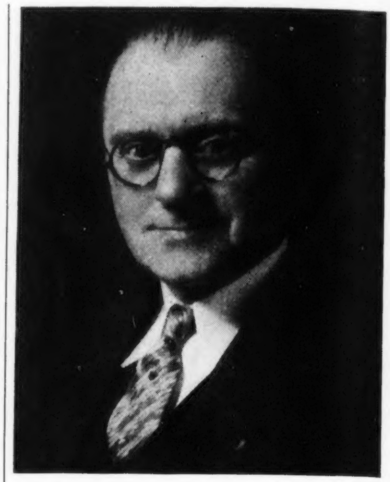
With expenses thus broken down into their logical elements and a watchful eye on the details of expenditure, two things can be accomplished—waste can be avoided and maximum benefits secured from each dollar spent



Mr. Kinsey

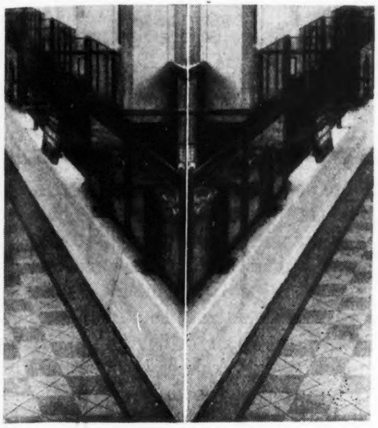
The Insurance of Savings Deposits

THE savings banks of New York State have taken steps toward participation in the temporary deposit insurance scheme of the Federal Government. At the same time they make it clear that, in the interests of depositors, they plan to seek changes in the Banking Act of 1933.

Emphasizing that the New York savings banks intended to cooperate with Washington "along the only lines now open" to them, Henry R. Kinsey, president of the savings banks association of the state, declared that "we are dead against deposit insurance as a permanent policy and hope to cooperate with the Administration and with leaders in Congress in working out a better plan."

Mr. Kinsey pointed out that, because of the differences in structure between savings banks and other types of institutions and the necessary haste of Congress to pass the legislation, special consideration for savings banks was found impracticable. He believes that "mature attention will enable the Congress to take cognizance of our distinctive position."

Specifically, the insurance committee recommended that members take the necessary steps to enter the temporary insurance plan, but that a continued study be made of deposit insurance and Federal Reserve membership, with a view to urging amendment of the Act.



Long Term • • Short Term

The Building and Loan League Suggests Where to Draw the Line

THE United States Building and Loan League, through its economic policy committee, has made the following observations on commercial banking:

"Commercial banks should not be permitted to make any mortgage loans or to engage in any long term financing activities. Commercial banks should be confined to the financing of the current requirements of business and should not be permitted to make any loans with a maturity of more than 180 days.

"Commercial banks should not be permitted to take savings deposits or to maintain savings departments or to be affiliated with savings institutions.

"Membership in the Federal Reserve System should be confined to commercial banks, and no savings institutions should be permitted to become members of the Federal Reserve System.

"There should be a definite demarcation between institutions for short time savings for emergency needs (such as savings banks), and institutions for long time savings or investments (such as building and loan associations). Short time or emergency savings institutions should adopt policies looking toward a high degree of liquidity with a commensurate, moderate return. Long term investment-savings institutions should maintain only reasonable liquidity, should never make funds available on demand and should yield a proportionately higher return."

Currency Is Very Hard to Manage

(CONTINUED FROM PAGE 21)

as the norm. Nevertheless the comparative steadiness of the prices of several of the commodity groups as related to other groups—such as metals and metal products, house furnishings, chemicals and drugs and leather products as compared with farm products—indicates variations in underlying conditions which affect or control prices in the several groups. These variable trends render an equable adjustment of all prices to an arbitrary single unit, such as gold, difficult if not impossible. There is nothing whatever to indicate that the adjustment of all prices to a varying gold unit would in any degree remove the inequalities in price variations such as those between prices paid for farm products and prices paid by farmers for the things they buy. At best, prices of all commodities would rise and fall together without interfering with the price trends which have so upset the debt and general economic structure.

The gold content of the dollar, in short, has comparatively little to do with commodity prices. It is quite possible that a 25.8-grain gold dollar, if expanded into $15 of bank credit, as has been the record in the comparative increase in gold stock and bank credit since 1924, and whose turnover is speeded up to the 1926–29 rate, would have no more buying power than a 12.9-grain gold dollar whose full credit power is not used and whose turnover is at a minimum. In fact, the reduction of a possible 50 per cent in the gold content of the dollar, now within the power of the President, is based upon the intent of making the half-price dollar equal in buying power to the full-price dollar in 1926. Accordingly the gold content of the dollar has not been responsible for its buying power in domestic markets either in 1920, in 1926 or since. The decrease in the buying power of the dollar during the War and, with some variations, up to 1929 and the increase in its buying power ever since have been due to other factors. With these facts in view it is difficult to avoid the conclusion that cutting the gold content of the dollar will accomplish none of the price relief anticipated by inflationists unless accompanied by an expansion of credit and a more rapid turnover of currency and credit, and that the latter could just as well accomplish the objects in view without any interference with the present gold unit.

A PLAIN CONCLUSION

IF the expansion of credit and the more rapid turnover of currency and credit have been the dominating factors governing price levels in the wide variations of the past 20 years, however, it is plain that prices cannot be controlled by variations in the gold content of the dollar.

The gold content of the dollar in relation to price levels becomes important in the foreign trade and financial relations of the country. Whatever balance may be struck between gold and commodities in the United States, its effect ends at the frontiers. If it may be assumed that the prices of commodities can be maintained at an established level in the United States by varying the gold value of the dollar, it seems quite plain that the prices of these commodities in other countries would vary not only with the ups and downs of foreign markets due to other causes but also according to the amount of gold the dollar represented at the time. It would involve the constant fluctuations in the international exchange value of the American unit, which is so great a burden upon and deterrent of foreign trade, making it difficult if not impossible for importers and exporters to determine costs or fix prices within the narrow limits which international competition requires. It would perpetuate those variations in exchange which are the bane of international transactions of the United States at the present time and which are the inevitable result of a departure from the gold standard.

Restoration or adjustment of dollar values will not be easy in any event, but it will be easier to the extent that the problem is not complicated by elaborated theories and attempts to manipulate prices in the process. The best assurance of higher commodity prices is a stabilization of business conditions which will give assurance to both capital and labor, agriculture and industry, debtors and creditors, that in their efforts to work out of business depression they will have the solid foundation of a sound monetary policy.

In comfortable 1926 the United States dollar was more than a state of mind

NANCIAL. THE NEW YORK TIMES, SATURDAY, MARCH 27, 1926. FINANCI

All Leading Accounts Show Increase In Member Banks Report of March 17

WASHINGTON, March 26.—The Federal Reserve Board's statement of condition of 713 reporting member banks in leading cities as of March 17 shows increases of $20,000,000 in loans and discounts, $182,000,000 in investments, $121,000,000 in net demand deposits and $179,000,000 in Government deposits. These increases were accompanied by a reduction of $81,000,000 in borrowings from the Federal Reserve Banks.

Member banks in New York City reported an increase of $31,000,000 in loans and discounts, and a decline of $3,000,000 in investments, together with increases of $97,000,000 in net demand deposits, $17,000,000 in Government deposits and a reduction of $46,000,000 in borrowings from the Federal Reserve Banks.

Loans on corporate stocks and bonds increased by $21,000,000, the larger increase of $61,000,000 reported by banks in the New York district being partly offset by reductions of $28,000,000 and $10,000,000 in the Chicago and Cleveland districts respectively.

"All other" loans and discounts were $11,000,000 higher than a week ago, the principal changes including a decline of $22,000,000 in the New York district and an increase of $10,000,000 in the Chicago district.

Total loans to brokers and dealers, secured by stocks and bonds, made by reporting banks in New York City, show a reduction of $82,000,000, loans for account of out-of-town banks having declined $91,000,000 and those for the account of others $3,000,000, while loans for their own account increased $12,000,000.

Investments in United States securities increased $202,000,000, increases being reported by banks in all districts. The largest increases in this item were as follows: Boston, $46,000,000; Philadelphia, $34,000,000; Cleveland, $27,000,000; San Francisco, $22,000, and Atlanta, $18,000,000. Holdings of other bonds, stocks and securities were $11,000,000 less than a week ago in the Boston district and $9,000,000 less at all reporting banks.

Net demand deposits increased $121,000,000, of which $108,000,000 was reported by banks in the New York district.

The principal changes in borrowings from the Federal Reserve Banks include a reduction of $49,000,000 in the New York district, and an increase of $11,000,000 in the Atlanta district.

A summary of changes in the principal assets and liabilities of reporting members during the week and the year ended March 17, 1926, follows:

	Week.	Year.
Loans and discounts, total	+ 20,000,000	+$733,000,000
Secured by U. S. Gov't obligations	− 2,000,000	− 29,000,000
Secured by stocks and bonds	+ 21,000,000	+ 506,000,000
All other	+ 11,000,000	+ 264,000,000
Investments, total	+ 182,000,000	− 181,000,000
U. S. bonds	+ 276,000,000	+ 285,000,000
U. S. Treasury notes	− 94,000,000	− 330,000,000

MAY WHEAT MAKES A FOUR-CENT GAIN

Cleaning Up of Unsold Cargoes Afloat Helps to Strengthen the Markets.

HIGHER AT CENTRES ABROAD

Buyers Find Offerings Light—Corn Gains 1⅝ Cents—Rye and Oats Also Advance.

Special to The New York Times.

CHICAGO, March 26.—Further strengthening in the foreign wheat situation, as indicated by the larger takings of afloat grain by the Continent, which it is claimed about cleans up the unsold cargoes that have been having a depressing effect abroad, was reflected in a bulge of 4⅛ cents in May wheat here today to a high of $1.60½, showing 6⅜ cents over the low on Tuesday. The finish was at the top, with a net gain of 3⅞ cents. Deferred deliveries gained 1⅝@3⅞ cents, September showing the least advance. Apprehension over the new crop outlook, due to a drop in

RUBBER PRICES SOAR ON WAVE OF BUYING

After a weak start in which May and July sold down 130 points, and September 210 points, the rubber futures market closed strong yesterday on a rush of buying orders in the final hour, which sent prices up to the highest of the day. May sold up to 58.70 in the last few minutes, a rally of 160 points, and a 10-point advance over Thursday, while a rise of 300 points in July to 57.40 cents, left that month only 30 points under previous close. September closed at 56.50, a gain of 130 points from the day's low, but off 60 points on the day. The volume amounted to 226 contracts, compared with 116 lots on Thursday. The range of prices for the more active positions follow:

	High.	Low.	Close.	Thursday's Close.
May	58.70	57.30	58.60	58.60
July	57.40	56.40	57.40	57.70
Sept.	56.10	55.00	56.50*	57.10

*Bid.

Other months closed: April 59.00, June 58.10, August 57.00, October, 56.00, November 55.50, December 54.80, January 54.30, February 53.80. Spots, smoked ribbed sheets, were quoted at 59.50.

The outside market was also easier, with prices down on an average of one-half cent a pound. Spot sheets were quoted at 58¾ cents, and first latex crepe at 58¾ cents. The range of prices for the leading grades, spot and futures, follow:

	Spot.	Apr.-June.	July-Sept.
Ribbed smoked sheets	.58¾	.58	.57
First latex crepe	.59½	.58	.58
Amber No. 2	.58½	.55	.54
Clean thin br. crepe	.55½	.55	.54
Para up-river	.52½	.52	.51

COMMODITY PRICES.

Cash Grains Continue Higher—Dairy Products Lower—Spot Cotton Reacts.

Strength continued to feature the cash grains yesterday, sharp rallies being reported in wheat, corn, rye and oats. Butter and eggs declined, as did spot cotton. Groceries, provisions and metals were firm.

Yesterday's closing wholesale cash prices for commodities in the New York market, unless otherwise noted, were:

	Mar. 26, 1926.	Mar. 19, 1926.	Mar. 27, 1925.
FOODSTUFFS.			
Wheat, No. 2 red	1.90	1.85⅝	1.84⅝
Corn (new), No. 2 yel.	.89⅛	.86⅜	1.28⅝
Rye, No. 2 white	.99⅝	.96⅝	1.32⅝
Oats, No. 2 white	.50	.48	.55
Flour std. sp. pts.	8.50@8.75	9.00	8.75
Coffee, No. 7 Rio	.17⅞	.17⅝	.20⅞
Sugar, granulated	.06	.06	.06
Butter, cr 92 score	.41	.41½	.45
Eggs, fr. gath. 1st.	.28½@.29½	.29½	.32
Lard, Mid W.	14.90@15.00	15.00	16.90
Pork, Mess	37.00	37.00	41.50
Beef, family	24.00@27.00	27.00	23.00
METALS—			
Iron, 2X Phila.	23.50	23.50	25.00
Steel billets, Pitts.	35.00	35.00	40.00
Lead	8.40	8.80	8.70
Copper	13.70	14.07½	13.60
Zinc, E. St. L. dely.	7.45	7.30	7.25
Tin	64.50	63.25	53.25
TEXTILES—			
Cotton, mid upland	19.25	19.30	25.30
Printcloths	.08⅝	.09⅜	.09⅝
Silk, Japan No. 1	6.25	6.21	6.01
MISCELLANEOUS—			
Rubber, spot	.59½	.61⅞	.42⅝
Hides, nat. steers	.12	.12	.16

Highest and lowest prices in 1926:

NEW INCOR

New York Charters

Special to The New York Times

ALBANY, March 26.—Sixty-seven new corporations, with an aggregate capitalization of $1,2[illegible],400, were chartered today. They include:

MANHATTAN

S. Aronowitz & Co., contracting, $5,000; S. and J. Aronowitz, A. Brody. (Atty., J. Rothstein, 261 B'way.)

Mill Coal & Supply Co., 200 common, no par; F. H. Butchers, C. J. Ferris, J. T. Amphery. (Attys., Perkins, Malone & Washburn, 30 West 44th St.)

Haverton Realty Co., $200,000; W. M. Sperry 2d, A. Woolfal, H. A. Nachant. (Attys., Parsons, Closson & McIlvaine, 52 William St.)

Hakanson Realty Corp., 200 common, no par; K. B. Hallett, R. D. O'Callaghan, J. Alfieri. (Attys., Davis, Wagner, Heater & Holton, 120 B'way.)

Deco Art, art works, $12,000; J. A. Lichtenberger, S. J. Oppenheimer, H. K. Weil. (Atty., C. J. Foltz, 2 Rector St.)

Manley Andrew Co., mdse., $10,000; A. J. Belfi, M. Gutterman, C. Baar. (Atty., S. Bernstein, 299 B'way.)

La Bely Restaurant Corp., $20,000; J. J. Blumofe, S. Levine, M. Fostal. (Attys., Blumofe & Levine, 1,540 B'way.)

Juuse Improvement Co., realty, $20,000; J. Helfand, L. M. Geto. (Atty., S. Berger, 331 Madison Av.)

Martin Cafeteria, $10,000; I. Thorner, H. Sold, L. Coleman. (Atty., M. M. Leiner, 250 Fulton St., Brooklyn.)

Sing Waite Realty Corp., realty, $5,000; B. and H. Lewis, S. Berman. (Atty., E. S. Kohner, 38 Park Row.)

Allbrown Realty Holdings, $100,000; D. and J. and B. M. Brown. (Atty., M. Guzberg, 565 5th Av.)

Bell Coal Co., $10,000; R. Gladstone Jr., M. Cohen, L. C. Myers. (Attys., Almy, Van Gorden & Evans, 140 Nassau St.)

Eastern Chartering Corp., ship brokers, $10,000; J. L. Murphy, M. W. Whesler, A. F. Cushman. (Attys., Fitzgerald, Stapleton & Mahon, 25 B'way.)

May Flower Shoes, $10,000; T. P. Kalkdjogiou, J. Ioannides, E. A. Asli. (Atty., G. Yaranitsolas, 2 Rector St.)

Garment Sewing Machine Co., $20,000; S. Rothfarb, L. S. Singer. (Atty., S. Siote, 13 Park Row.)

A. Cohen Art Shop, $5,000; A. and F. [illegible]

Interest Rates on Instalment Purchases

INSTALMENT dealers should state frankly what the customer is paying for credit, according to the Consumers' Advisory Board of the N.R.A. This suggestion was made at the hearing on the finance company industry code. The Board held that the dealer "should come directly to the consumer with the truth, letting the consumer decide for himself whether he wishes to buy on company financing or to pay cash."

The Board defined its position under four headings:

"1. Whenever goods are sold on deferred payment the seller performs two distinct and separate functions—the sale of merchandise and the extension of credit for which a charge is made.

"2. Whenever a charge is made for the extension of credit this charge, like the price of merchandise, should be stated in terms which make it readily comparable with all prices for the use of money repayable in monthly instalments.

"3. There is only one accurate way to express the price of the use of money —by a given percentage on a given principal for a given time. Any other method of statement permits juggling with one of the two variables—principal and time.

"4. In instalment credit the outstanding amount of credit declines from month to month. Therefore, the only accurate and outspoken way to express the charge for this type of credit is in terms of a given percentage on the current monthly unpaid balance."

"There is no implication," said Miss Constance Kent, who spoke for the Board, "that instalment rates are too high. The suggestion is made merely against concealment of the rates for the use of money in such transactions."

Gold Since the Fourth of March

(CONTINUED FROM PAGE 31)

be discharged upon payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender for public and private debts. Any such provision contained in any law authorizing obligations to be issued by or under authority of the United States, is hereby repealed, but the repeal of any such provision shall not invalidate any other provision or authority contained in such law.

(b) As used in this resolution, the term "obligation" means an obligation (including every obligation of and to the United States, excepting currency) payable in money of the United States; and the term "coin or currency" means coin or currency of the United States, including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations.

SEC. 2. The last sentence of paragraph (1) of subsection (b) of section 43 of the Act entitled "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes," approved May 12, 1933, is amended to read as follows:

"All coins and currencies of the United States (including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations) heretofore or hereafter coined or issued, shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, except that gold coins, when below the standard weight and limit of tolerance provided by law for the single piece, shall be legal tender only at valuation in proportion to their actual weight."

August 28

Regulations Governing Hoarding, Earmarking and Export of Gold

An executive order on August 28 prescribed provisions for the investigation and regulation of the hoarding, earmarking and export of gold coin, gold bullion and gold certificates. It provided, in part, that "within fifteen days from the date of this order every person in possession of and every person owning gold coin, gold bullion, or gold certificates shall make under oath and file as hereinafter provided a return to the Secretary of the Treasury containing true and complete information relative thereto. . . ." Exempted from the necessity of making a return were holders of not exceeding $100 in gold or gold certificates, etc. Returns were to be filed with the collectors of internal revenue. "A return," stated the executive order, "made and filed in accordance with this section by the owner of the gold coin, gold bullion, and gold certificates described therein, or his duly authorized agent, shall be deemed an application for the issuance under Section 5 hereof of a license to hold such coin, bullion, and certificates."

A licensing system for the legitimate acquisition of gold was provided in Section 4 of the executive order. After 30 days no person was to hold any gold (apart from the exempted categories referred to in the order of April 20) except under license. The Secretary of the Treasury is required by Section 5 of the executive order to issue licenses authorizing the holding of gold required by the person owning the same for necessary and lawful transactions for which currency, other than gold certificates, cannot be used; required for legitimate and customary use in industry, profession, or art by a person regularly engaged in such industry, profession, or art or in the business of furnishing gold therefor; earmarked or held in trust since before April 20, 1933, for a recognized foreign government or foreign central bank or the Bank for International Settlements; and imported for reexport or held pending action upon application for export licenses.

The earmarking or exportation of gold except under license was prohibited by the order.

Executive orders of April 5 and 20, relative to the hoarding, earmarking or exportation of gold, etc., were revoked.

August 29

Sale and Exportation of American-Mined Gold

An executive order of August 29 has made possible the marketing of American-mined gold at the prevailing world price. The Treasury is authorized to receive on consignment for sale gold recovered from natural deposits in the United States. Sales may be made to persons licensed to acquire gold for use

A gold mining camp in the mountains of Luzon, Philippine Islands. The rise in the price of gold has led to boom conditions wherever gold is mined

in the arts, industries or professions, or by exportation to foreign purchasers,

at a price which the Secretary shall determine to be equal to the best price obtainable in the free gold markets of the world after taking into consideration any incidental expenses such as shipping costs and insurance.

Such sales may be made through the Federal Reserve banks or such other agents as the Secretary may from time to time designate, and shall be subject to such charges as the Secretary may from time to time in his judgment determine.

Every person depositing gold for sale as provided herein shall be deemed to have agreed to accept as conclusive without any right of recourse or review, the determination of the Secretary or his duly authorized agent as to the amount due such person as a result of any sale.

Consignments shall be sold as nearly as may be in the order of their receipt.

The Secretary of the Treasury, in his discretion and subject to such regulations as he may prescribe, is hereby authorized to issue licenses permitting the export of articles fabricated from gold sold pursuant to this executive order.

October 22–November 1 Summary

On Sunday, October 22, in a radio speech to the nation, the President announced a new gold policy whereunder the Reconstruction Finance Corporation would purchase gold produced in American mines. The President also stated that the Government, whenever necessary, would buy or sell gold in the world market.

The executive order and regulations implementing the new decision were issued October 26 under date of October 25. This executive order revoked that of August 29. It authorized the mints and assay offices to receive on consignment gold recovered from natural deposits in the United States; authorized the R.F.C. to acquire such gold and to hold, earmark for foreign account, export or otherwise dispose of such gold; and amended the executive order of August 28 so as to permit exportation of articles fabricated from gold.

On October 26 the Treasury and the R.F.C. issued new interlocking gold regulations. Newly produced American gold in amounts of two ounces or more became acceptable at the mints and assay offices. It was announced that the R. F. C. would pay for the gold by means of non-interest-bearing debentures maturing February 1, 1934, and priced at ¼ per cent discount. The amount of the debentures was fixed at approximately $50,000,000 and it was provided that they should be convertible into cash at any member bank of the Federal Reserve System.

On October 27, 1933, the R.F.C. issued a public advertisement regarding the notes, series of February 1, 1934. At the same time a table was published showing the face value of the notes "per each dollar of gold purchase price," for each day between October 25, 1933, and February 1, 1934.

The R.F.C. began announcing a daily price for gold on October 25, the price applying to American gold, only. The premium over the world price thereafter was gradually increased, and on October 29 it was announced from the White House the Government would enter the world gold market as a purchaser.

On November 1 it was announced that the Reconstruction Finance Corporation, "under the authority vested in it by the President," had authorized the Federal Reserve Bank of New York to dispose of the notes of the Corporation and take in payment foreign gold imported after November 1, 1933.

GOOD

By Cooperative Action

IN considering practical solutions for the public relations problem now confronting banking, the possibilities of an approach through the clearinghouse deserve the thoughtful consideration of every banker.

Today's public relations problem is particularly a cooperative one. It is not the individual bank which is under attack, but the business of banking.

Mass psychology today blames the going, competently run bank for the short-comings, mistakes and misfortunes of the banks which were unable to withstand the assaults of the depression, and it seems but logical that the "mass action" of banks through their clearinghouses is a sound method of changing current "mass thinking".

While the individual bank will always have its own public relations program to attend to, a supplementary program explaining the functions of banking has a great deal to be said in its favor.

There are many forms which such a program can take.

1. Cooperative advertising designed to show the part that banks are taking in the development of the trade and industry of their cities.

2. A cooperative house organ or series of letters or other literature to be mailed under clearinghouse auspices to all bank customers. To make this material most effective, it should be done under the control of a clearinghouse committee competent to interpret to depositors the policies, services and facilities of all member banks.

3. Bank officers may be selected to deliver talks before business groups, church members and other bodies comprising the bank depositors, present and prospective, in the community.

4. A clearinghouse committee might be delegated to discuss fully and frankly with any disappointed borrower the reasons why his loan failed to meet the requirements of sound banking, and to render any possible service in changing his status as a prospect for credit.

Complaints against banking today come largely from three sources.

A. Those who need money for capital purposes and require education to distinguish between capital loans and commercial self-liquidating loans.

B. Those whose own investments have shrivelled in value through the depression and who throw the responsibility on the banker without considering that the shrinkage in investment values has worked with the same devastating effect on banks as on themselves.

C. The mass who demand that some one be thrown to the lions and have selected the banker to fill that unenviable role.

The viewpoint of the latter group is based upon the rarity of their contacts with banks and bankers, but the other two constitute forces to be reckoned with, and they constitute banking's public relations problem at this time.

NESMITH

WILL

By the Individual Bank

FOR improving the bank's public relations, few things are more effective than a dignified, concise statement of policy. Confidence will thrive in an atmosphere of calm but decisive clarification of what a bank intends to do, couched in terms that any customer can understand.

A good example of what can be done along this line appears in a folder issued by one southern institution*:

Banking Department. "Its purpose will be to provide an efficient, courteous and responsive routine banking service to its customers, and to employ the funds deposited with it, through conservative and constructive loans, for the upbuilding of the commercial and industrial life of Atlanta, the State of Georgia and this section."

Trust Department. "No investment securities are purchased or sold to the investment department of this Company by its trust department. All purchases of securities for trust estates are made in the open market at the lowest available prices and all sales of securities for trust estates are made to the highest bidder, or, if listed, on recognized exchanges.

"All funds of fiduciary estates on deposit awaiting investment are at all times secured by United States Government bonds. All purchases of investments for trust estates and all sales of trust assets are approved by a trust committee of seven directors, combining in their experience wide knowledge of investment and property values.

"All trust accounts under the Company's management are audited by independent public accountants, and certified statements of the assets of each trust are available to duly authorized and properly interested principal beneficiaries on request. This service is supplementary to the periodic reports regularly furnished to beneficiaries."

Mortgage Loan Department. "No mortgage loans are made by this department for the account of any trust fund managed in the trust department."

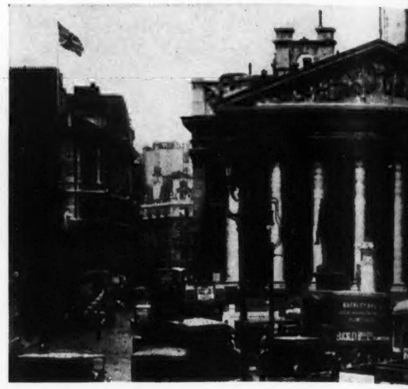
Investment Department. "This department will be conducted in harmony with the Banking Act of 1933 and the Securities Act, as to both the letter and spirit of these laws. Its activities will, within the time limits specified, conform fully to these laws.

"The Company will not in the future engage in the underwriting of any stock issues.

"Complete facilities for the dealing in Government, state and municipal bonds and other public obligations, and for the purchase and sale, on customer's order, of corporate investment securities, will be continued.

"It will continue to maintain a complete statistical library and an adequate investment advisory service, available to those desiring competent, unbiased and conservative assistance."

* Trust Company of Georgia, Atlanta



Threadneedle Street, London. The effects of the Securities Act can be seen

Opinions on the

Government

DR. James M. Landis, recently appointed to the Federal Trade Commission, sought to allay fear of the Securities Act's liability features in an address before the New York State Society of Certified Public Accountants.

Dr. Landis based his reassurances on the fact that many of the disturbing provisions of the Act might never be invoked. He indicated, furthermore, that "the requirements of the registration statement alone are the basis for determining what statements must be made and, therefore, what omissions dare not be made. Beyond these requirements an issuer may, of course, go, but no requirement now calls for such statements to be made at the peril of liability."

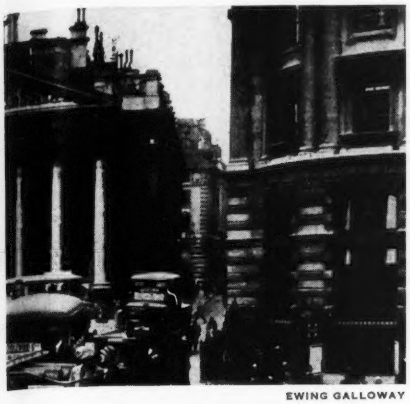
On the subject of materiality of an omitted fact the Commissioner said that this question "must be gauged with reference to purpose, and, recognizing that the purposes of the Act are the protection of the investing public, it does not become difficult to depict the standard of materiality. In other words, facts become material for the purpose of omissions and misstatements when, as a consequence of such omissions and misstatements, non-existent values are attributed to a security."

Assuming that in a given case there has been an omission of a material fact, Dr. Landis pointed out that "reasonability," which would, of course, differ widely in different cases, would be the basis for fixing personal liability. That is, "under some circumstances such a standard would require personal knowledge of the facts assumed to be true. Delegation to others of the duty to verify the facts would, under other circumstances, suffice to meet the requirement."

It is his belief that the Federal Trade Commission, which administers the Act, can be relied on for an understanding of "reasonability".

In the event that damages had to be collected under the Act, it was indicated that probabilities might also work to protect the innocent but involved issuer, director or officer. Every purchaser would hardly be likely to bring suit, Dr. Landis pointed out, and even if all did, other factors would tend to lessen the dangers to those liable for payment, for instance the fact that every jury trying cases connected with one particular issue would not, in all probability, come to the same conclusions.

Dr. Landis does not, evidently, believe that the Act's provisions need modification at the present time, anyhow, for he states that in spite of assurances of more enlightenment among issuers, he finds little or no evidence.



EWING GALLOWAY

in the mounting disparity between capital flotations in New York and in London

Securities Act

Distributor

THE "gravest obstacles" in the practical operation of the Securities Act, states Frank M. Gordon, ex-president of the Investment Bankers Association, are "the indefinite liabilities which are imposed upon industry and upon security dealers."

Unlike the long established doctrine of presumptive honesty, Mr. Gordon believes that the law "has been made to swing toward presumptive guilt and seems to conclude that makers and sellers of securities are presumptively corrupt." Under such an assumption, business cannot succeed.

Because of its radical "caveat vendor" provisions the Act fosters litigations, nuisance suits and spurious claims.

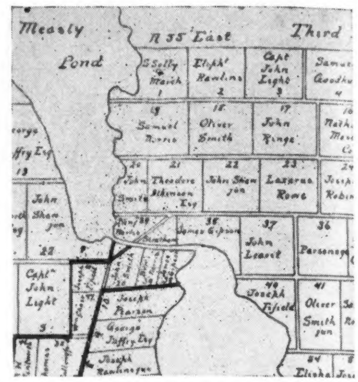
It is Mr. Gordon's view that the Act, to all practical purposes, goes against the whole theory of the law of corporations, which is based on the limitation of individual liability except in the case of fraud. "Inability of an officer or director of an issuer or inability of a dealer to forecast the future should not be included in a statutory definition of fraud," he observes.

"The risk in this law is not merely one of civil liability," he says. "The Act subjects the seller of securities to criminal liability for the wilful omission of a material fact. This may sound like a substantially safe proposition because, after all, if a man will wilfully omit a material fact he should be punished. But all the facts with respect to any one issue cannot be put forth in a prospectus. Some selection has to be made, and matters which may not appear to any experienced and honest issuer or dealer to be material at the time may be wilfully omitted at the time of the underwriting, and in the light of subsequent events come to have a material importance."

To Mr. Gordon's mind, there is entirely too little clear-cut definition in the Act, and too much is left for future determination when unpredictable events with regard to an issue unfold, causing as much surprise to the issuer as to the investor. He points out that the liability under the Act may extend for as long as ten years.

"The Federal Securities Act should be modified," concludes Mr. Gordon, "so that the liability sections are made reasonable, and the complex procedure in registration simplified.

"Let no one make a mistake with regard to our position. We are, as we always have been, for an effective law. Our recommendation is made with a full acceptance of the spirit and purpose of the Act, and the sole purpose of such modification would be to make the Act workable.



When the United States was not so crowded as it is today, town credit was almost a personal matter

Municipal Credit

THE municipal securities committee of the Investment Bankers Association of America drew up an interesting and valuable report at the association's recent Hot Springs, Virginia, meeting. The committee appears to look on the problem of municipal finance as being now in a good position for solution, what with certain avenues of approach opened up by the Federal Government in its recovery legislation, the earnestness of public officials in their efforts to maintain municipal credit and a public that has lately become more aware, and perhaps appreciative, of the financial dilemmas of local governments.

A good deal of the committee's consideration was given to Federal laws which directly or indirectly affect municipal and state finance, for example, the Recovery Act, Securities Act, Banking Act and the emergency relief acts. While knowledge of what this legislation may do locally is mainly based on various legal interpretations rather than on experience, the assistance of Washington agencies is looked on as of great importance in working out local credit problems.

A speeding up of readjustment was indorsed in the following resolution:

"WHEREAS minority interests may now obstruct needed municipal refunding operations due to the fact that 100 per cent approval of all affected creditors is required, and

WHEREAS it is to the best interest of municipal credit and the owners of municipal bonds that all situations of this character be corrected as early as possible, and

WHEREAS legislation was passed by the House of Representatives at the last session of Congress providing machinery for refinancing plans binding on minority creditors when approved by a large majority of the creditors, the municipality in question and a Federal court,

BE IT RESOLVED that the Investment Bankers Association of America endorses the principles of legislation which would permit the orderly readjustment of municipal indebtedness when such legislation requires the approval of the plan of readjustment by a Federal court, the municipality and a substantial majority of the creditors affected.

The report ends with this statement: "The focusing of American public opinion on local municipal government for over a year undoubtedly has been a great advantage to municipal management and already has corrected many of the evils and abuses of the past This cannot help but work to the advantage of municipal credit in the future."

THE CLASS IN ECONOMICS.
FITZPATRICK IN THE ST. LOUIS POST-DISPATCH

The Public's Attitude Toward Finance

(CONTINUED FROM PAGE 17)

banks, your Government is enabled to maintain a closer contact with the policy and management of every bank than has been possible heretofore through periodic examinations by national bank examiners. This additional capital will permit the banker to make good banking loans which, in many instances, he cannot make now without reducing his cash position below the requirements of the state and national governments. It is one more step in the program to thaw frozen assets and, through established channels, to make available to industry, to business, to agriculture, the funds needed to bring us out of the depression.

"It is well to remember that it is your money loaned to the banker which he, in turn, loans to the borrower and that in making such loans he is governed not alone by his judgment and his responsibility but by the terms and conditions under which you have placed your funds in his safekeeping. When you deposit money in a savings account, you enter into an implied contract that you will leave those funds in the bank for at least six months. The banker, in fact, is renting your money, although we call it 'paying interest.' When you put money into a commercial account, the banker is affording you a convenience, performing a service. You pay your house rent, water bill, telephone, the grocer, the department store through the convenient medium of the check. At any time, you can draw all or any part of your funds. Consequently, the banker does not pay you interest for the use of this money.

"Let us consider ourselves as both borrowers and depositors. Then the bank becomes simply the medium through which the loan is made. This is a fair test, since in practically every instance a man borrows from the institution in which he has surplus and current funds deposited. What, then, is the banker's duty to you as depositor and to you as borrower. His first duty, I think we are all agreed, is to keep your deposited money safe. He cannot do that if, through baseless fear or for whatever reason, he retains too large a cash reserve. Eventually such a policy could only result in an impaired capital and closing of the bank. If only for your protection, he must earn dividends. The loans he makes must be well balanced, not too many in any one classification; they must be granted only after careful appraisal; they must be for useful purposes to stimulate trade and put men to work. That is the objective of your Government, with which, I may assume, everyone is in full sympathy."

Canada's Proposed Central Bank

BY a vote of three to two, the Royal Commission which has been studying Canadian banking problems for several months has recommended the prompt establishment of a central bank whose functions should include the sole right of note issue, banking for the Canadian and possibly the provincial governments and the issue and management of the public debt.

Clauses in the suggested constitution include the following:

1. The bank should be allowed to establish branches.

2. The capital of $5,000,000 should be offered for public subscription with participation limited to British subjects resident in Canada.

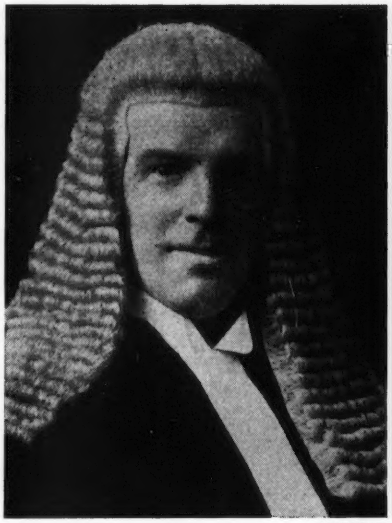
3. The bank should be managed by a board comprising a governor, deputy governor, assistant deputy governor and six to eight directors. None of the latter should be bankers or bank directors, but the former should be men of tested banking experience. No member of the board should hold public office of any kind.

4. The bank should have the sole right of note issue. Outstanding commercial bank issues should be redeemed over a specified period of years. Dividends should be limited to 5 or 6 per cent cumulative.

5. The bank should be allowed to make advances on any of the foregoing or other readily marketable securities, to accept non-interest-bearing deposits and to discount promissory notes, but should not engage in trade, make unsecured loans, allow the renewal of bills, advance to the Dominion Government in excess of one third of any year's anticipated income, or 25 per cent of yearly income to any provincial government.

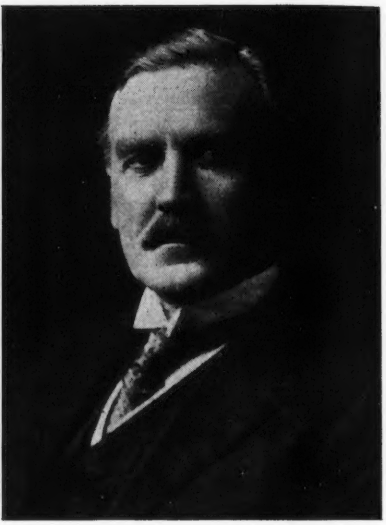
6. Profits after dividends and reserves should go to the government.

7. The bank should be the banker of the Canadian Government and perhaps of provincial governments.



KEYSTONE

Lord MacMillan



Sir Thomas White

8. Minimum deposits equal to 5 per cent of their deposit liabilities in Canada should be maintained with it by each commercial bank.

9. The bank should take over the issue and management of the public debt.

10. The principal operations of the bank should include the buying and selling of gold, silver, foreign exchange, 90- or 120-day prime bank or commercial bills, six-months agricultural bills, short term domestic Dominion and provincial government securities, a limited amount of similar long term securities, short term securities of the United Kingdom, British Dominions, the United States and France and a limited amount of long term British and U. S. Government securities.

11. The bank should concentrate on the gold holdings of the country.

12. The bank should maintain 25 per cent in gold and foreign exchange against its outstanding note issue and sight liabilities.

In the majority report, approved by Lord MacMillan, Sir Charles Addis and J. E. Brownlee, the commissioners found that "the lack in Canada of a single banking authority" is "responsible for regulating the volume of credit and currency, for maintaining the external stability of the country's currency and for providing impartial and expert advice to the Government," on matters of financial policy."

The Commission makes clear, however, the fact that the formation of a central bank cannot be expected to influence the price of a particular commodity, nor should it be charged with responsibility for the general price level.

Sir Thomas White of the Canadian Bank of Commerce and Beaudry Leman of the Banque Canadienne Nationale dissented from the majority report; the former because, in his belief, a central bank at this time would prove an impediment to the government and a brake upon recovery; the latter because such a bank could not be kept free of political influences and because the time is inopportune, inasmuch as world monetary policies are in a state of flux.

Those Who Export Their Dollars

AMERICANS who became fearful of their dollars a few weeks ago and by various pretexts succeeded in transferring them into pounds, francs, guilders or other forms of more stable currency are meeting with difficulty in getting their dollars returned. If a man some months ago declared he had to have francs to pay for some French wine he had ordered, got the francs, and now wants to turn the francs back for dollars at an American bank, the Federal Reserve bank probably will want to know what happened to the wine; if he didn't buy what he said he was going to buy, it looks much like fraud or violation of the Government's foreign exchange orders. Incidentally, the Federal Reserve now has a great collection of reasons why Americans in moments of doubt want to buy foreign exchange. During the recent fall of the dollar a large proportion of the population suddenly became restless and contracted to buy estates abroad, to divorce their wives at exorbitant legal fees in French courts, pay mortgages on the foreign estates of their relatives, or remit huge sums to relieve distress in Poland or Greece. One man even wanted to complete payment for a house in China, where, according to what he told the bank people, he intended to retire and spend his declining years in peace.

The High Cost of Bargain Trust Service

(CONTINUED FROM PAGE 18)

trust departments have been built up, the profit from this type of trust business frequently carries the department and absorbs the loss from the other operations.

Trust departments should receive credit for services they render to the banking departments and likewise should be charged for services rendered to them by other departments.

Generally, no relation exists between the cost and amount of work involved in rendering trust service and the fee received for the service. In a great many instances the fees collected do not begin to pay the costs incurred. Is it possible that eventually trust fees will be based on service rendered rather than dollars handled?

Too frequently, it is the desire of this department to attract all possible business. Invariably, this results in unprofitable business being built faster than profitable business. Selectivity in new business effort and an unwillingness to accept everything that comes along has been successfully used to overcome this condition. One bank, which received many appointments from the court over a period of years, found this type of business given them materially weakened the department. Since this realization they have consistently asked to be relieved from such appointments and have stated that they already were handling more of this type of business than they could soundly care for.

Competitive cutting of rates in the solicitation of trust business has contributed to the loss in many large departments. The desire for size seems to be behind all these efforts and is a weakening factor in the department's operations.

The new banking Code presents a concrete opportunity to overcome many of these undesirable practices, and if the opportunity is not accepted, the banks will have no one but themselves to blame.

Recently

(CONTINUED FROM PAGE 9)

haps nine-tenths of the bankers of the United States this declaration is about 100 per cent perfect.

The only question about the matter seems to be as to how strongly bankers will register their sentiments in Congress and what Congress will do about it.

*

Hard Winter

Internal revenue of the Government continues to increase, and after liquor taxes go into effect it will rise more rapidly. But expenditures of the Federal Government also continue to rise. The deficit at the end of October amounted to $481,906,629, as compared with $993,741,753 at the end of October, 1932. A cut of more than 50 per cent certainly looks good, but when the public works expenditures commence to flow out of the Treasury the aspect will not be so favorable. The Treasury is in for a hard winter.

*

Long Range

The authorities in Washington are rightly insisting that farmers, manufacturers and the man-in-the-street take a long range view in their consideration of the recovery program, industrial and agricultural, and what it has accomplished to date.

Certainly no short range scheme will get the country out of its present difficulties. One may be permitted to suspect, however, that ten years from now the average American citizen will look back on many present day propositions with a feeling that they were not such long range views after all.

*

The British Token

There was no news in the announcement that the debt negotiations between Great Britain and the United States were unsuccessful. There would have been much news in an announcement that there had been results. Everyone can readily understand that a settlement is quite impossible so long as the pound and the dollar are in a muddle.

The conference at Washington was a polite gesture indicating Great Britain's good faith. The token payment of $7,500,000 in December is to preserve Great Britain from the stigma of default. The preservation of Great Britain's credit in the United States is worth much, as France and some other nations in time may learn to their sorrow.

*

Recess

The International Monetary and Economic Conference at London did not adjourn. It merely took a recess. It may be well to remember this, although it is a little uncertain why it did not adjourn.

*

Inventories

The drop in commodity prices during the current quarter will nip earnings of many industrial corporations in their inventory accounts. Some of these corporations built up their inventories during the May–July speculative industrial activity in anticipation of inflation prices. It seemed a very bright idea at the time, but in these days of business uncertainties bright ideas do not always last.

*

Liquor

The Ways and Means Committee of the National House of Representatives is already in session preparing a new revenue bill for the coming session of Congress. The chief incentive to haste in the matter is the need of getting in on liquor revenue under a new system as soon as possible.

Members of the subcommittee of the House Ways and Means Committee who have under consideration the taxes on liquor. Below, Representatives Crowther, Vinson, Treadway, Hill, Doughton and Frear

INTERNATIONAL

The American Red Cross has been engaged in its annual "roll call" campaign for membership

Ideas on what the new liquor taxation will produce in hard cash for the Government vary fantastically all the way from $300,000,000 to five times that sum. The truth is that no one knows what liquor consumption under the new regime will be or what rate of taxation will produce the most revenue. Among other things it will depend upon the psychology of the consumer, the activity of the bootlegger and the action of state legislatures and municipal councils. There is general agreement that the Government should obtain as much revenue as possible; it needs the money. It is fairly well agreed that too high a tax will reduce consumption and thus introduce the law of diminishing returns.

It will also fail to divert revenue from the bootlegger to the Government, and the Government prefers to take its revenue direct rather than by way of the income tax, from the bootlegger.

*

Paper Hopes

The Pan-American Conference at Montevideo is following the same course as that pursued by the International Economic Conference at London, and for the same reason it is running to a wreck on the high rocks of economic nationalism. When preparations for the meeting were first made there were high hopes—on paper—that it would lead to the development of closer trade and economic relations between the United States and its southern neighbors, as a result of a series of reciprocal trade treaties. No one with an understanding of fundamental Latin-American conditions believed this possible, but it was a good talking point.

Great preparations in Washington for the Montevideo meeting have petered out to a proposition to improve air and road transportation between the Americas. If trade cannot be improved perhaps travel can be. In the meanwhile Latin-American bonds may remain indefinitely just where they have been for the past year or year and a half.

Cuba

At each semi-annual pay-up date during the past two years New York banks have been lending the Cuban Government short term funds to meet long term interest and amortization. The December payment must be met the same way, if at all. Continued disorder in the island cannot result otherwise than in default in spite of nursing by underwriting banks, nor can intervention by the United States be much longer postponed in spite of the determination of the Government in Washington not to become more involved.

Why Not Try Capitalism?

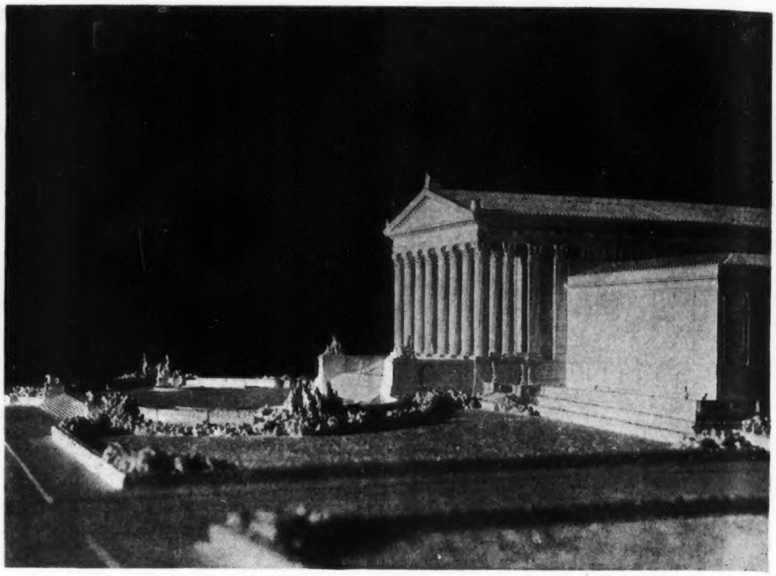
(CONTINUED FROM PAGE 15)

and of real significance, however we may describe the system under which it was achieved. To say that such a system is of no value and must be discarded simply because of a single severe depression is the most primitive sort of reasoning, typical of the distorted perspective which the depression itself has produced.

It is equally naïve and historically illiterate to distinguish this system from others by the catchword "capitalism". All economic systems in which people use any kind of tools or implements for producing things are capitalistic, and certainly every modern nation is. Wherever people try to increase their productive power by spending some of their energy in constructing means of making their work more effective, you have capitalists, whether they are breeding cattle or looking for sharp stones to whittle pointed sticks with which to kill game or plant seeds. Neither England nor America invented capitalism, nor did Russia destroy it. Man has been a creative, that is, a capitalistic animal ever since he stopped living merely by picking wild fruit or catching fish with his bare hands and eating it on the spot.

It would be quite impossible for any large population in any nation today to support itself, even to subsist, except by an intensive and continued development of capitalism. If any nation is to support an increasing population and certainly if it is to raise its standard of living, it must divert a constantly increasing amount of its working energy to the creation of means of production; it must accumulate and replenish capital. There is no other way.

Soviet Russia is in this sense the most capitalistic country in the world, because it spends a larger part of its working energy in creating the means of production, and it has put itself under a spartan communist regimentation in order to compel its people to consume less and save more. In fact the communism of Russia in its deepest sense is merely an expression of its intense determination to make itself more capitalistic, for in view of the Oriental temperament of its people it could never persuade them to make the sacrifice necessary to accumulate capital rapidly otherwise than by subjecting them to arbitrary and tyrannical discipline.



Model of the new Supreme Court Building, designed by Cass Gilbert

When you look at the problem in this light, it appears that one reason—perhaps the main reason—why Russia has suffered relatively less severely during this depression is that she has been so much more capitalistic than the "capitalist" countries. Indeed it may fairly be said that the depression was the result of the retardation of capitalistic development in the other countries, and it was so much more severe in the United States than elsewhere because in this country, from 1928 on, and possibly earlier, capitalism—that is, the accumulation and investment of savings in improvements in productive facilities—was rapidly abandoned and by 1933 was practically at a standstill. This slowing up of saving and real investment beginning as early as 1925 was in my opinion one of the deep seated sources of the depression.

Of course, conditions favoring speculative use of bank credit and savings were an important factor making for high long term interest rates and so retarding real investment; but more significant in causing the movement away from capitalism in its essential sense were persistent tendencies in public and private policy which put constantly greater obstacles in the way of enterprise and hampered free capitalistic development and the free play of economic forces making for automatic adjustment in industry. These have been developing over a longer period than the few years preceding the depression. On the one hand the growth of governmental regulation, multiplying interferences in enterprise and increasing burdens of taxation levied upon it in every field, had tended over many years to retard the rate of expansion of new real investment, until our productive facilities suffered from rapidly increasing obsolescence and inadequacy in relation with modern technical standards. By 1930 the industrial plant of the United States was woefully backward in comparison with Germany, and over half of its equipment was ten years old or older. It is a delusion that post-war American industry as a whole was making rapid advance in productivity.

This is essentially true of American agriculture. Furthermore the prevalence among industrialists of the fear of over-production, the persistent desire to restrain or prevent expansion of modern productive capacity and to control prices, combined with the systematic sabotage of production practiced by labor unions and their inflexible wage policies resulted in a widespread rigidity of prices which prevented an increase in productive power and a rise in real purchasing power. Heavy taxation and increased diversion of the national income into non-reproductive public expenditure added to the obstacles in the way of normal capitalistic

development and contributed to its abandonment beginning in 1929.

Curiously enough, this force of private saving and real investment whose decline was the basic factor in the depression was regarded by the New Deal administration as the primary cause of the depression. The whole economic policy of the New Deal has been based upon its restriction and the legislation expressing that policy aims to discourage or destroy it and replace it by state investment. The New Deal cannot escape being essentially as capitalistic as the old, but it wants to try another kind of capitalism, and the essential economic policy of the New Deal administration, embodied in the New Deal legislation, is to prevent the restoration of this fundamental force, upon which alone recovery can be built.

Thus "capitalism" is meaningless as a characterization of the economic system by which we live in this country, whether under the New Deal or the old. The essential and unique element in the *kind* of capitalism under which the United States has developed is the unhampered initiative of the individual in using his energies to accumulate capital and to invest it in enterprise which increases the productive power of the nation. The fundamental defect in this system has been the steadily increasing obstacles that have been put in the way of exercising this initiative intelligently and effectively, and the difficulties we face now are due to the fact that it has been so seriously discouraged, and indeed, almost wholly destroyed, by the New Deal policies.

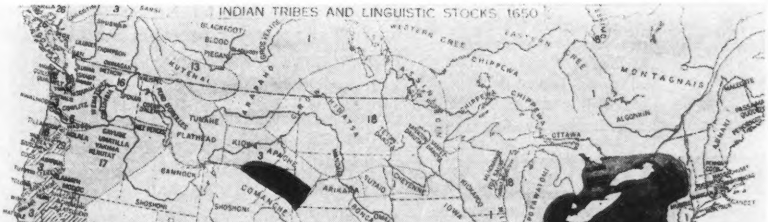
Capitalism, in this sense, as it has developed in this country, is the most successful system ever devised for the fullest release of the individual energies of a people for effective work. It is one of the deepest delusions of the New Deal to suppose that the American form of capitalism, in contrast, let us say, to the Russian or Italian form, results only in the accumulation of enormous and highly concentrated masses of dead or unproductive wealth. All forms of capitalism are systems involving not only the accumulation but also the dissipation of capital, for all capital, whether accumulated and invested by a central government or by individual initiative, is inevitably dissipated by economic law which is as inescapable as the second law of thermodynamics. All investing is spending, and the American form of capitalism has been so effective in securing the largest output of work because it has facilitated the rapid dissipation as well as accumulation of capital. It has done this by encouraging individuals in every way to accumulate capital and to dissipate it or spend it in investment in new enterprise through free competition, which is in the ultimate interest of the nation as a whole. Competition, the correlative of individual initiative and enterprise, has been the corrective and safety valve of capitalism in America and the basis of our progress.

Ignorance of these basic economic processes which underlie the capitalistic system in the United States has unfortunately become one of the most serious obstacles to recovery and resumption of progress in this country. Industry, including many large employers as well as labor organizations, have in consequence allowed themselves to be intrigued by the ideas involved in the N.R.A. and in the "national planning" concept because they want to set up a rigid system whereby they hope to prevent the natural dissipation of capital, and to this end they favor measures to prevent its accumulation and free investment.

Our greatest hope lies in the fact that this attrition is inevitable. It would be much wiser and better for industry, labor and the Government to concentrate their efforts for the immediate present on the promptest possible restoration of the fundamental forces of capitalistic enterprise, and, for the future, on the progressive improvement of the capitalistic mechanism so as to secure the greatest release of the creative energies of individuals in effective work. This would be far wiser and better than to try to make the world over on another basis—especially on the basis of the assumption that the status quo in any field of interest, whether of labor or capital, can be permanently preserved by government or law or group agreement. The planners, regimenters and controllers are the true standpatters from the point of view of real economic forces, and capitalism in the essential American sense is the most radical and progressive and adaptable economic system the world has ever seen. If we want to be radical and progressive, if we really want to treat ourselves to a New Deal, after many years of steadily wider drifting away from its basic principles, it would be worth trying a dose of pure, unadulterated American capitalism in the United States. But it must be taken straight, and it should be used well before shaking.

SAVAGES

The development of the United States from an area populated by savages into the wealthiest nation in the world is history's greatest phenomenon. This was achieved under a capitalistic plan. The map below shows the distribution of Indian linguistic races over what is now the United States



CARNEGIE INSTITUTION

United States of America Treasury Bonds of 1943-45

4 1/4 Per Cent to October 15, 1934, 3 1/4 Per Cent Thereafter

SENIOR vice-president Campbell had much extra work when the Secretary of the Treasury called almost two billion of the Fourth Liberties. All day long he had to hand out advice to customers of the bank, and, in the evening, after a hasty dinner, he took a taxicab to his home, intending to retire early. He felt rather tired. All the customers he had talked to during the day had been different types and their investment positions also had been divers, but their problems were essentially identical: what to do about the Government's offer of new conversion bonds. Some of the customers had only $100,000 of the called bonds; some had more. One chap had $2,000,000. This big investor had been among the first callers. To him Mr. Campbell had said:

"Why not convert? You will be sure of the 4¼ per cent for at least a year. If you switch into uncalled bonds you have no guaranty that the Treasury Department may not call the rest of the Fourth Liberty Loan. And then you will have the same problem. The next conversion offer is sure to be less favorable."

The wealthy investor had departed well pleased, and Mr. Campbell had felt not a little proud of himself for putting up the advice so neatly. He tried the same formula on the $100,000 customers and they, too, seemed to approve. Soon he had got the phrases down pretty pat and inserted some interesting variations dealing with tax exemptions, the money market and the foreign situation.

At home now in an easy chair in his library, while attentive Weems prepared a highball, Mr. Campbell relaxed with relief. Fourth Liberty bonds of large denominations flitted around in his mind.

Mr. Campbell drank the highball gratefully and had wearily closed his eyes when Weems, standing stiffly erect before him with an expression of anxiety mixed with apology, suddenly said:

"I wonder, Sir, could I impose upon you, Sir, for a bit of advice? A personal matter, Sir."

Mr. Campbell opened one eye, then the other, and looked at Weems in some surprise.

He answered, "Certainly, Weems, if I can be of service; what is it?" Wide awake again, the banker sat up and reached for a cigarette for which Weems promptly struck a match.

"Thank you, Sir. It's this Treasury refunding of Fourth Liberty bonds. You see, Sir, all my bonds have been called by their—er—digits, and I am puzzled as to what to do—sell them, purchase some uncalled ones or exchange them for new bonds."

Mr. Campbell sighed. There it was again. Why didn't Secretary Woodin let the public debt alone and stick to music? He turned to Weems.

"Why not convert, Weems? You will be sure of 4¼ per cent for at least a year. If you switch into uncalled bonds you will have no guaranty that the Treasury may not call the rest of the Fourth Liberty Loan. The next conversion offer is sure to be less favorable, you know. . . ." Mr. Campbell stopped short, feeling a little foolish.

While he paused, Weems said: "It's the interest, Sir. Naturally, I prefer 4¼ to 3¼ per cent. In general the new bonds, I might say, Sir, are quite acceptable. They pay 4¼ per cent the first year and 3¼ per cent for the next eleven years. But I do not like, Sir, any unnecessary sacrifice of interest."

The banker grinned. "Neither do I, Weems."

He felt a sudden curiosity as to the extent of Weems' wealth and, banker fashion, set himself to find out.

"Tell me, Weems, do the tax exemption provisions meet your needs?"

"Oh, quite, Sir." Mr. Campbell felt baffled.

"Does it mean a large sacrifice of income, Weems?"

Weems nodded sadly. "One per cent yearly, Sir."

Checkmate again, thought Mr. Campbell. Weems' private affairs were handled as discreetly as were his own. He asked the direct question. "How many bonds have you, Weems?"

"Three, Sir."

"Three thousand dollars?"

"Oh, no, Sir. One hundred and fifty dollars; three $50 bonds. And," Weems added lugubriously, "they've all been called."

The banker commenced figuring on a pad while his mind was converting itself from the astronomical to the microscopical. The pad told him that through conversion Weems' bond income would be cut from $6.37 yearly to $4.87.

Mr. Campbell cleared his throat and said, gravely, "Weems, I would consider the matter in its broader aspects. I would not overlook the duty of a citizen to help make the Treasury's conversion offer a success. What I mean is why not convert? You will be sure of 4¼ per cent for at least a year. . . ."

Having started, Mr. Campbell went through with it to the end, quite pleasantly and with rising eloquence which only oft repeated previous elocutions could account for. Then, feeling a tinge of self-disgust and unconscious of Weems' thanks, Mr. Campbell went to bed and, in the preliminaries thereto in his room he got the Treasury's conversion details more or less inextricably enmeshed in the Lord's Prayer.

Books

Insurance

How Safe is Life Insurance? By L. Seth Schnitman. Published by Vanguard Press, New York. Price, $2.00.

A critical analysis of the management and investments of the leading life insurance companies of the country. The author was formerly Chief of the Division of Survey of Current Business of the United States Department of Commerce. Surveying life insurance companies as a group, he finds conditions but little improved since the investigations of 1905. The book advocates Federal regulation and control of life insurance.

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Credit

Practical Credit Analysis. By Eugene S. Benjamin. Published in mimeograph form and distributed by the author from 220 Fifth Ave., New York City. Price, $7.00.

While every successful credit man will always give careful weight to intangible factors of moral risk and capacity in his decisions, the widely experienced author of this book believes that there are important rules and principles which can be developed and applied with marked benefit by all granters of credit.

In this book he presents a system of credit analysis which was worked out in ten years service as bank credit consultant in one of New York's largest banks. The analysis is accompanied by statement exhibits, trade standards and operating and current ratios based on actual balance sheets in various industries as illustrative of the principles which he advances.

One purpose of the book is to show the superior value of operating ratios in determining the availability of balance sheets. The author illustrates the added protection afforded the lender by the check that the balance sheets supply on current ratios and the obstacles they present to manipulation.

The author also points out safeguards which would protect investors in industrial bonds by the application of agreements for maintenance of stipulated ratios between current assets and liabilities of clauses that limit receivables and merchandise to a definite percentage of sales.

Foreign

Manchukuo, Child of Conflict. By K. K. Kawakami. Published by Macmillan, New York, Price, $2.00.

This Washington correspondent of a Tokyo paper gives his own country's viewpoint, of course, and sets it out entertainingly.

Biography

Henry P. Davison. By Thomas W. Lamont. Published by Harper, New York. Price, $3.50.

Mr. Lamont was a business partner of Mr. Davison in J. P. Morgan & Co., and gives not only interesting details of his subject's life but of events in Wall Street for some years past.

Economics

Bankers' Gold. By Edgar L. Smith. Published by Simon and Schuster, New York. Price, $1.50.

An informal discussion of economics after the fashion of "The Professor at the Breakfast Table."

*

Value Theory and Business Cycles. By H. L. McCracken. Published by Falcon Press, New York. Price, $4.00.

Not only the economics of the business cycle, but a valuable outline of post-war dislocation, with a few suggestions for maintaining a more even economic keel.

*

Economic Cycles and Crises. By W. C. Schluter. Published by Sears, New York. Price, $2.50.

An examination of economic history as displayed in cycles, a study of the present situation and a constructive program, with interesting charts and diagrams.

Conservatism May Return

(CONTINUED FROM PAGE 38)

result of increased production in other countries, the world carry-over this year will be larger than that of last year. The corn and wheat acreage reduction programs are not working.

Many farmers accept the bounties but many of them prefer to keep free of acreage restrictions and take their chances for better prices as a result of restrictions on the other fellow. The probable result of this tendency is actually increased acreage on the whole, or at least as large production next year as the current year. Since the acreage reduction machinery creaks and grinds in its operation the Government is fixing prices to some extent by loans of 10 cents a pound on cotton and 50 cents a bushel on corn—precisely the plan followed by the Federal Farm Board three years ago with disastrous results. In short, the farm aid program is not working well and the Government's agencies are on the defensive.

With this situation in two major lines of recovery, there is naturally a questioning of the efficacy of the inflation movement. There has been a threat of direct inflation of the currency for more than seven months, and progressive steps ever since the country left the gold standard seem to have brought direct inflation nearer.

At the present time all conditions precedent to direct inflation actually exist. There is, first of all, the gold embargo and the practical departure from the gold standard—voluntary but none the less effective for all that. Secondly, there is an unbalanced budget, hidden, so far as possible, by the specious scheme of dividing the budget as a whole into ordinary and extraordinary expenditures, but involving a deficit of billions when the public works funds flow out. A third condition is an enormous and increasing floating or short term debt. A fourth is the increasing doubt whether the Government can float more loans in the future at a reasonable rate in view of its gold policy.

It must be realized, also, that from the beginning there has been the categorical statement of the President of the United States that the American price level is to be raised and that if one method of doing this did not succeed others would be tried.

That the schemes so far tried have failed means nothing to the inflationists. Their answer is that inflation has not been tried. How fallacious this claim really is may be appreciated by an examination of what would happen in case of the actual issue of unsupported currency under the authority already possessed by the President. Two methods could be followed in the issue of greenbacks. In one case they could be used to redeem outstanding Government obligations, in which event the money would be paid to the present holders of these obligations. In the second case the money could be paid out to meet current Government expenditures, in which event it would find its way into the hands of those who sell to or serve the Government. In either case the money eventually would find its way into the banks of the country. In the banks it would become additional deposits which these institutions under present conditions could not use, would supplant other forms of currency, such as Federal Reserve notes, and eventually become, in the case of member banks, excess reserves in the System.

CONFIDENCE

IN other words the effect of the issue, aside from any influence it might have upon the credit of the Government and the confidence of the people in their monetary circulation, is precisely the same as the open market, bond buying policy which the Reserve banks have been following for a year and a half and whose chief effect upon the currency and credit situation has been the piling up of bank credits which business cannot or will not use, the cheapening of credit to the Government itself and a steady decrease in bank earnings from the comparatively small volume of loans the banks still find it possible to make.

The converse of this proposition, of course, is that the billion and a half dollars which the Reserve banks have put out in the purchase of Government obligations, above their normal holdings in pursuance of this open market policy, has in fact been effective inflation. It has had the merit of being inflation which the Reserve banks could control by the possible reversal of their bond buying practice, but nevertheless it has been inflation and it has failed of its purpose to raise commodity prices or otherwise stimulate business.

There is not much doubt that the issue of $3,000,000,000 in unsupported currency by the Government, as already authorized by Congress, would materially change this situation, for it is probable that such watering of the monetary medium would cause the general public to lose confidence in the currency—something which so far has not happened.

GEORGE E. ANDERSON

The NRA Administrator ended his Midwestern tour in Louisville. Left to right, Louisville's Mayor Harrison, Kentucky's Governor Laffoon, Miss Robinson, secretary to General Johnson, and the Administrator

INTERNATIONAL

The Condition of Business

(CONTINUED FROM PAGE 5)

or the world's stocks of gold. It is the Warren idea that the collapse of prices in 1929 was due to the circumstance that world gold stocks at that time were insufficient to support the post-war volume of trade at the post-war level of prices. The thing to do, he argues, is to augment present world gold supplies. And since that cannot be done in the physical sense, he would do it through a bookkeeping process. He would bid up the price of gold, and thus revalue upward our monetary gold reserve. Put another way, the proposal amounts to a gradual devaluation of the paper dollar in terms of the gold dollar.

While a good deal of skepticism was evinced by business men and financial authorities over the first phase of the Administration's new gold program, that stage in which the R.F.C., enjoying a monopoly market, advanced its rate daily by from 5 to 50 cents an ounce, it was not until the Government entered the foreign market for gold that there were signs of genuine apprehension. The reason for this is clear enough. Buying gold abroad meant that the Federal Reserve (which was the agent for the Administration in its foreign activities) had first to sell dollars to get the requisite exchange. The result was that the dollar came under constant pressure in the foreign exchange market. Indeed, by the middle of November —foreign operations commenced on November 2—the pound sterling had risen from the $4.50 level at which it stood on October 21 to approximately $5.50.

This rise in sterling reflected in part the operations of the Government; it reflected in an even greater measure, undoubtedly, distrust of the American currency. This distrust was not so much because of the dangers that resided in the Warren "managed currency" theory itself, but because it was felt that if the Administration was willing to go so far in money tinkering as to employ a device which was utterly without support among recognized monetary authorities, it might go still farther yet, and resort to the issuance of fiat money. In one other sector this apprehension made itself felt on a substantial scale; this was in the market for Government bonds, which shortly slipped off to such low levels that the huge Government loan conversion, in progress at the time, was automatically brought to a halt.

As this is written, on November 17, almost four weeks have elapsed since the President announced his new plan for attaining a higher level of commodity prices. In that period the price of gold, which had for years been established by statute at $20.67 an ounce, but which had risen to $29.80 just before the October 22 speech, as a result of the gold embargo and conjecture about inflation, had been marked up in the domestic (artificial) market to $33.56. With the pound sterling at $5.50, meanwhile, the gold purchasing power of the American dollar had fallen below 60 cents. The net result in the stock market had been a rise of approximately 10 per cent as measured by the averages of the New York Herald Tribune; bonds were off moderately; and the more volatile commodities were up from 5 to 12 per cent.

In view of the fact that the British gold price had risen more than 50 per cent over a two-year period without any rise in the general level of commodity prices, most observers were inclined to see little direct relationship between the advance in the price of the yellow metal itself and these upswings in stocks and commodities. Rather, they attributed the phenomena to the tendency always prevalent among speculators and investors in times of doubt concerning the credit and currency of a country to seek safety in equities.

The effects of the President's course in respect to gold had much more pronounced effects in the financial markets, as might have been expected, than on business. The period October 15–November 15 in business as a whole may be described as one in which the decline which set in during the month of July was definitely tapering off.

The spring and summer rise in business, as measured by the index of the New York Herald Tribune, carried from a low of 43 in April to a high in July of 77, or a total advance of approximately 34 points. The recession that followed carried the index to around 58 in the middle of October, and it remained near that level over the next three weeks. At that point nearly 60 per cent of the rise had been eliminated.

The decline in industrial production, which showed signs of halting, if not reversing itself in mid-November, was the most precipitate since the beginning of the depression. The reason that comparatively little cognizance was taken of this fact, presumably, was that the rise that preceded it had been so sensational that most people were reconciled to a substantial reaction.

The last issue of the *Federal Reserve Bulletin* publishes, instead of its statistical "Review of the Month", a section devoted to a speech by Mr. Roosevelt and other non-statistical material. There had been a misunderstanding with NRA about reemployment figures. Winfield Riefler, below, heads the Central Statistical Board, which now reviews all Government statistical data that might lead to divergent interpretations

GLOBE

GLOBE

Professor Warren

Purchasing Power

(CONTINUED FROM PAGE 45)

teach people thrift; second, draw additional money from hoards, since some people trusted their funds with no institution except the Government; third, cause foreign-born residents who were accustomed to postal savings in their own countries to keep their savings in the United States instead of remitting them so extensively to their native countries, and, fourth, provide savings facilities for the large rural population, particularly that of the West and South, where banking facilities in the rural communities were often lacking.

The system was inaugurated in January and February, 1911, by the designating of one post office to receive postal savings in each state and territory. For the fiscal year 1911, 400 offices were open. In 1912 there were 10,170 in operation. There were 12,820 in 1913, which reaches the high water mark of the system as far as number of stations is concerned.

The law as enacted provided for a maximum deposit of $500, which has been increased from time to time until now the maximum which may be deposited by one person is $2,500.

Has postal savings achieved the four objects which its proponents sought?

First, its teaching of thrift by printed material has consisted largely of sending out printed material about the first of each year. This printed material frequently has been couched in language that has caused protests to be made by bankers to the Post Office Department, claiming that the printed material reflected upon the safety offered savings depositors by banks.

Second, no evidence has been published to show what, if any, money has been withdrawn from hoards by postal savings.

Third, Mr. Carter B. Keene, Director of the Division of Postal Savings, said before the Savings Bank Section of the American Bankers Association on September 26, 1915, that at that time 60 per cent of the total number of depositors were born outside of the United States and that this 60 per cent owned three-fourths of all the deposits. With our present restricted immigration the percentage of foreign-born will rapidly decline. It would naturally follow, then, that no great efforts are necessary on the part of the United States to prevent money from being sent to foreign countries by American nationals of foreign birth.

Fourth, the basic argument that the Postal Savings System would reach rural communities not served by banks has completely gone by the board. During the third year of operation the Post Office Department made a definite effort to carry out the intent of the legislation by establishing postal savings in numerous post offices.

Deposits received at the post offices are in turn redeposited by them in banks which have qualified by depositing bonds to secure the postal savings deposits. Thus for every dollar of postal savings redeposited in banks a dollar must be expended by the depositary bank in buying bonds. Bonds so bought necessarily can not remain as a part of the bank's reserves.

State	*Per Inhab. Postal Savings*	*Per Inhab. Savings Exclusive of Postal Savings*
Maine	$ 2	$271
New Hampshire	5	452
Vermont	1	431
Massachusetts	8	573
Rhode Island	3	483
Connecticut	8	511
New England States	**6**	**511**
New York	9	533
New Jersey	9	254
Pennsylvania	7	197
District of Columbia	15	163
Delaware	2	255
Maryland	3	237
Middle Atlantic States	**8**	**356**
Virginia	2	79
West Virginia	4	54
North Carolina	4	16
South Carolina	7	11
Georgia	5	31
Florida	19	27
Alabama	3	21
Mississippi	3	22
Louisiana	3	40
Texas	5	25
Arkansas	6	16
Kentucky	3	46
Tennessee	3	35
Southern States	**10**	**32**
Ohio	10	112
Indiana	9	47
Illinois	18	72
Michigan	15	51
Wisconsin	9	101
Minnesota	14	120
Iowa	21	59
Missouri	10	67
East Central States	**15**	**79**
North Dakota	12	39
South Dakota	17	31
Nebraska	13	41
Kansas	9	37
Montana	21	62
Wyoming	20	67
Colorado	15	69
New Mexico	9	10
Oklahoma	8	26
West Central States	**19**	**39**
Washington	21	82
Oregon	17	73
California	14	250
Idaho	17	32
Utah	7	89
Nevada	23	53
Arizona	17	30
Pacific States	**12**	**177**
United States	**9**	**164**
Hawaii	**1**	**118**

The trustees of the Postal Savings System have the right to set the interest rate paid by banks at not more than 2½ per cent nor less than 2¼ per cent. The post office pays the depositor 2 per cent. Because of the low money rates existing for several years, efforts have been made to induce the Post Office Department to reduce the interest rate. This effort has not been successful, because it is claimed that the expenses of operating the department could not be met if the interest rate paid by depositary banks were reduced to 2¼ per cent.

The claim that the Government is itself paying an inordinately high rate for money in allowing a 2 per cent interest rate for postal savings and practically compelling depositary banks to pay a rate on redeposits not justified by prevailing conditions is of lesser moment than the harm done bank credit by the syphoning of money through postal savings from districts where money is so sorely needed.

In the east central states complaints arise. The effect of postal savings deposits on the commercial life of a state can be understood when it is realized that in Iowa, where every person has an average deposit of $59 in savings deposited in banks, each one likewise has $21 in postal savings. In addition to the reserves in bonds which must be bought with the deposits in banks, $21 for each person is syphoned out of the state in postal savings.

In the great Northwest, which has suffered the brunt of over-production and low prices, postal savings has withdrawn large sums from commercial use. The same is true of the Pacific states.

The recent legislation, by which after the first of January it will no longer be necessary for banks receiving postal savings to buy bonds in the amount of the deposits, will eliminate one of the most objectionable features of the postal savings business. It is an objection which was basic and which arose out of a national need so fundamental that the ordinary discussion concerning postal savings never touched it. Postal savings was discussed largely from the viewpoint of the safety of the depositors' funds.

Two evils yet remain, one the high interest rate and the other the failure of the Post Office Department to make its facilities available in the remote agricultural sections and to remove them from the urban sections where banking service is adequate for all requirements.

First National Bank

First National Bank

First National Bank

First National Bank

FIRST NATIONAL BANK

FIRST NATIONAL BANK

FIRST NATIONAL BANK

FIRST NATIONAL BANK

Your Letterhead

THE New York Evening *Post* recently printed a story signed by William Feather about a certain newspaper man who had become widely known as a winner of contests—so widely known in fact that promoters even considered excluding him as a professional. When interviewed, according to Mr. Feather, "he stated frankly the secret of his prowess. He presented his answers impressively. He chose the highest grade of paper, and even employed illustrators or letterers on some occasions. If photographs could be used, they were the finest grade of work, on the most costly paper, beautifully mounted. These things had an unconscious effect on the judges."

Then, continuing his own discussion of what he termed the "business announcement on paper of quality enclosed in an envelope that offers resistance to one's penknife," Mr. Feather emphasized that the same principle is useful in other endeavors.

If he had chosen to become more specific, he might well have named banking as one of those other endeavors. At any rate, it is. Every bank and trust company in this country has just as many judges of its activities and actions as there are depositors, borrowers, trust or other customers—and prospective customers. And every piece of banking correspondence that goes out of the institution has "an unconscious effect" on those judges. How important this actually is at the present time can best be determined by individual bankers themselves in the light of the experiences of the current year. The handling of a bank's correspondence is in reality a public relations problem, and public relations activities were never more important.

Considered from another angle, correspondence handling also involves a number of cost factors that are sometimes overlooked. Take dictation, for example; it usually leads the way, costing more than a third of the estimated total. Stenography claims its share, another third. Overhead is apportioned and postage must be paid—add a fifth for them combined. Less than a fifth then remains to cover one of the most important of the cost items insofar as that "unconscious effect" on the judges is concerned. This is the letterhead itself—involving paper, envelopes, and actual production. Being the first to impress customers and prospects, a bank's letterhead should be a quality product. Relatively small in cost, it can be.

The need for new letterheads is widespread nowadays because of the unusual number of changes in bank names, personnel and capital structures, due to the new order of things generally in banking. Perhaps this applies in your institution; and if you are planning a revised or a new letterhead, just how are you going about it? What procedure are you following?

Certain necessary and up-to-the-minute information is to be included and should be presented effectively, all of which paves the way for improvements. Having definite selling value for the bank, the letterhead ought to reflect personality and character and strength, both institutional and personal; and in many of its uses, it will need protective qualities. Individuality, too, is desired and can often be attained by special watermarks or trademarks (November JOURNAL), but there are still other ways. Some slight improvement in design may also give an added freshness to the whole appearance.

But how can you determine these things quickly? What information, what illustrations, what type styles, what arrangement? What paper, and paper size? And by what process—engraving or embossing, lithographing or printing? First, of course, your own bank's requirements will dictate the essential data to be included, and this must be determined. Then, it will help considerably in presenting these facts to

How does the letterhead of your bank compare with others? Here is a quick check-up afforded by a JOURNAL study of what 178 banks are now using

NESMITH

COSTS

Dictation and stenography are the major costs in correspondence, and yet how important the letterhead is in its effect on customers and prospects

study the letterheads of other banks and by comparison to know just what the prevailing "fashions" are in bank stationery.

The JOURNAL has made this study and comparison between bank letterheads, using 178 samples from institutions in 29 states and the District of Columbia. The results are given here. Sixty-four samples came from large and small banks in 11 Federal Reserve cities, and 114 were from institutions in smaller communities. As to uses, 103 of the 178 were apparently regular bank letterheads for all correspondence; 55 were for individual officers' use; 13 were departmental letterheads; and 7 were special office letterheads, either main or branch office or, as in one case, "security office." Thus they afford a good cross-sectional study for the purpose.

PRODUCTION

THE comparison confirmed the generally recognized fact that bank letterheads are well above the average of those used in business as a whole. Design, workmanship and paper stock were good in most cases, but there were very evident exceptions due either to false economy or to a lack of knowledge of quality engraving, lithographing or printing. Of the total number, 83 letterheads were lithographed, 50 were engraved, and 40 were printed. Two were litho-engraved, an expensive process, to care for both type design and illustrations. One was engraved and embossed, the latter process used for the bank's trademark design. And two were embossed only.

As to colorwork the natural preference in most cases was production in one color, usually black. Of the 178 letterheads, 138 were in black only, 21 were in gray tone or gray and black, and 2 were in blue only. Of the 17 others which were in two colors, 8 were in red and black, 5 in brown and black, 3 in green and black, and 1 in blue and black. Type matter was in color in several cases, but the additional color usually was for illustration.

The paper stock used and the letterhead sizes revealed other interesting facts. For size, the standard 8½ by 11 letterhead—with slight variations in trim in some instances—was decidedly preferred, 161 of the 178 being of this size. The other 17 showed 12 different sizes ranging down to 6 by 9, and no more than 3 were of any one irregular size. It should be noted here, however, that only one letterhead was received from any one institution although some of them undoubtedly use several different letterheads. Among the larger banks this is usually true, where letterheads for the officers or for branches are the rule rather than the exception. An interesting sidelight was that, in this study afforded by regular business correspondence, small envelopes were used in 121 instances, and only 57 used large envelopes.

The paper stock also confirmed the statement that banks as a rule use good paper for their letterheads. White was used throughout. Practically all the letterheads were on high grade bond papers, with only a few parchments. Some were 100 per cent rag papers, others had high rag content, and still others were the better grade sulphite bonds. The importance of the paper factor for quality cannot be overestimated, and these letterheads emphasized a banker's advice to "specify the bond and you know what you get. When you use a plain bond, you don't know." Standard bonds are distinguished by the watermarks of the paper makers, which are worked into the papers during the process of manufacture; and some banks have their own watermarks. In this study, 133 of the letterheads showed the trade watermarks of standard brands, 36 were on selected papers having the banks' private watermarks, and only 9 were plain bonds with no watermarks at all. Analyzing the 133 trade watermarked papers still further proved interesting. It showed that decidedly the greater number, 84 of them, were brands of no less than 21 paper manufacturers whose products are sold nationally, and this would seem to indicate that the bankers in those instances had actually specified the bonds. Of the remaining 49, 20 were identified as having the watermarks of 13 paper jobbers that operate more locally, and the other 29 included 21 unidentified watermarks which probably belong in the same group. This would seem to indicate that a considerable number of bankers still leave this important factor of paper selection to their local printers or lithographers.

The additional cost of private watermarks, involving the costs of design and of the dandy-roll for working the marks into the paper at the mills, would apparently limit their use to the larger banks, but this did not seem actually to be the case. While most of the 36 private watermarks noted in this study were from larger city banks, quite a few were from leading institutions in small cities and towns. Two were illustrations of bank buildings, but the other 34 were special designs serving as bank trademarks and showing in most cases the name or initials of the bank and some historical or industrial illustration symbolic of the local community. Last month in the JOURNAL a discussion of "Watermarks and Trademarks" described these special designs more in detail, and treated them together as they should be treated due to similarities in use. Brief reference here will be made only to the favored locations for private watermarks. Of the 36 examples, one was at the top center of the letterhead, 17 were in the center, 10 at the lower left, 7 at the lower center, and one at the lower right. Center locations would seem to indicate the protective importance for important bank letters, and preferences for bottom locations indicate a desire for the watermarks to be seen in the paper. In 11 instances, the watermarked designs were repeated as well in black or some other color.

FACTS

NOW, what facts about the banks themselves did these letterheads show?

The listings of officers and directors indicated decided preferences. Seventy-three letterheads listed all officers, 16 listed the senior officers only, 1 listed all the directors, and 55 listed one officer only or had an officer's special imprint. Thirty-three

Wear and Tear

Modern methods and devices—mail bags, chutes, pneumatic tubes, trucks—speed up mail deliveries, but they impose a terrific strain on even the best of papers

NESMITH

showed no officers' or directors' listings at all, and of these, 10 were letterheads of the simplest design showing bank name and address only, while 23 showed little other data in addition to the name and address.

The listing of addresses other than city and state was far from being the rule. Of the 178 examples, street addresses appeared on only 48, branches on 13 and branch office addresses on 10. Eighteen gave cable addresses, one in red and another listing all codes used; and 6 showed the phone number, one of these in red. Eight specified "In reply please refer to—," and two trust companies stated "Please address all communications to the company."

The strength and age factors were recorded in type in various ways. Thirty showed capital and surplus combined, 28 gave capital only, 25 included surplus only or surplus and undivided profits, and only one listed "resources" as one total. In one case a slogan sufficed—"largest relative surplus of any commercial bank" in its section.

The date organized was expressed in various ways, although only 45 of the 178 showed this item. Of these, 41 showed the date in type or trademark, and 4 showed it in the watermark. In addition to "Organized in" or "Founded" and the date, some banks noted mergers as well—as, for example, "A Merger of (and the names of banks and dates in each case)", and "Continuous Service Since 1803—Through (and the names of five banks and the dates organized)." Still others said it with slogans—as, for example, "Oldest Bank in—", and "Oldest National Bank in—".

Affiliation, that much discussed topic, appeared on only 9 letterheads. "Affiliated with" or "Identical Ownership with" a trust company accounted for 4 of these, and affiliation with some chain banking group accounted for 5. Watermarked design in the paper was used by one bank to show its membership in a group.

Twenty-seven letterheads showed bank membership in the Federal Reserve, two using red for the type and one including the diamond-shaped design. Two only recorded membership in the local clearinghouse. Fifteen national bank letterheads showed the charter number of the institution in each case. Types of banking service were itemized on only 6—usually at the top under the name and, in two cases, in red.

Slogans, already referred to, were used sparingly and were found on few letterheads. When used, they were generally at the top, above the bank name. In one instance, "Under the Old Town Clock" appeared under a building illustration. But, on another letterhead, no less than four slogans were used—one at the top and three in a single line across the bottom.

TYPE

NOW as to the uses of type in presenting these facts. Every advertising man knows the importance of type faces and type designs in "setting" an advertisement, and this applies equally well to the preparation of letterheads—perhaps more so. The type designs of these letterheads were many and varied and they showed so large a number of special hand-lettered types that a classification by "families" or groups would make description difficult here. But they did show careful preparation and were well executed as a rule, especially for the bank names and the city and state addresses which were usually similar in design. For the names, 113 letterheads showed solid black lettering, 46 showed shaded lettering which gave a gray effect or a raised-letter effect, and 7 showed outlined lettering. Eleven bank names, too, were in Old English type and 9 were in script, several of each being either shaded or outlined; and on three letterheads the names appeared only in trademarks.

The uses of capitals and small letters in all the type matter revealed marked preferences as to bank names, city and state addresses, officers' names, resources, and other data such as street addresses where given, titles, departments, branch offices and slogans. Summarizing, as to:

Bank Names—109 letterheads listed these in large and small capitals, 26 in all capitals of the same size, and 43 in capitals and lower case (small) letters;

City and State Addresses—91 showed large and small capitals, 63 were in all capitals, and 32 were in capitals and lower case letters—8 combining the address with the name and repeating the address;

Officers—only 12 listed these in large and small capitals, 117 in all capitals, and only 4 again in capitals and lower case letters;

Resources—of the 84 letterheads showing this item, 9 listed in large and small capitals, 63 in all capitals, and 12 in capitals and lower case letters; and,

Other Data—only 36 showed these items in large and small capitals, while 113 showed them in all capitals, and only 19 again used capitals and lower case letters. In 19 instances, (CONTINUED ON NEXT PAGE)

This discussion is one of a series relating to record handling and paper problems of banks. Others were published in September and November. A fourth article in a later issue will deal specifically with checks and safety papers

THE American Bankers Association
20 BROAD ST. AND 18 NEW ST.
NEW YORK.
Feb. 14th, 1903.

A 30-year contrast in letterheads. Simpler designs with less decoration and more open type are today's fashions for the stationery used by banks, although some institutions find it better to continue a letterhead identified by long use

Then —

and Now

THE
AMERICAN BANKERS
ASSOCIATION
22 EAST 40TH STREET
NEW YORK, N.Y.
——— Dec. 1, 1933.

Your Letterhead

(CONTINUED FROM PRECEDING PAGE)

italics were used for these various items.

To answer the question, "Shall we include this, or that, at the bottom of our new letterhead in black or some other color?", let's take one more glance through these 178 examples. Only 9 of them included data at the bottom, not a very popular preference. Of these, 8 were at the bottom center, and 1 at the left. Six were in black only, one was in red only, one in red and black, and one in four colors. And what were the purposes? Two were trademarks, one was a picture, one was a map; two listed banking services, one gave slogans (three of them all in a row), one listed Federal Reserve and local clearinghouse memberships, and another offered a three-line statement protecting the bank as to the reliability of the facts stated in the letter. And that was all.

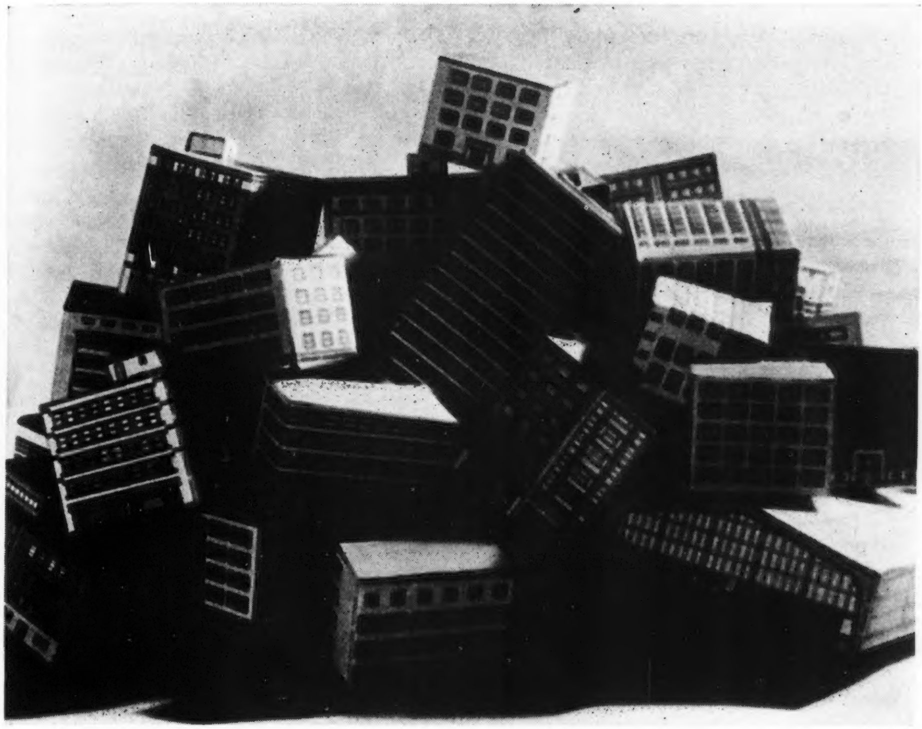
ILLUSTRATIONS

IN contrast to the few letterheads already mentioned as having only the simplest type design confined to the listing of bank name and address, no less than 117 of the 178 included illustrations or at least some decorative touch. More specifically, 50 of them showed a picture of the bank's building, 43 showed a special trademark design, 1 only showed the diamond-shaped insignia of Federal Reserve membership, 1 had an industrial illustration, 1 had a map, 1 included an illustration of historical significance, and 1 devoted the lower half of the letterhead to a "special purpose" picture in four colors (the Chicago World's Fair grounds). The other 19 had some little decorative touch in harmony with the lettered design.

The building illustrations were interesting. Of the 50 in this group of letterheads, 27 showed bank and office buildings of the skyscraper type—and one of these, the tower only. Twenty were buildings of the monumental type. Two showed the building front only, and 1 showed merely the entrance. It seems that banks in large cities are proud of their monumental structures devoted wholly to banking, and those in smaller towns in many instances are equally proud of skyscrapers. As to location on the letterheads, 22 of them were at the top left, usually balanced with officers' listings or other type matter at the top right; 27 were at the top center; and 1 was imprinted lightly in the center. Of those at the top center, 20 were above the bank name, 4 were imprinted over the name, 2 were under the name, and 1 was located beside the name of the institution. As to color, 45 were in black or gray tone, 1 was in brown only, and 4 in two colors —3 in green and black, and 1 in blue and black. A picture of the building and a roster of officers also seemed to go hand in hand. Of these 50 letterheads, 29 also listed all the officers, 1 showed both officers and directors, 2 listed the senior officers only, and 13 included one officer only. Three used both building and trademark as separate illustrations, and one had its building picture worked into the trademark.

Trademark designs, so closely linked to special watermarks in their use and already mentioned as having been discussed last month in the JOURNAL, require no further comment except as to location and colorwork. Of the 43 trademarks used, 35 were at the top center, 4 at the top left, 2 at the bottom left, and 2 at the bottom center. Top center preferences were: above the bank name, 18; imprinted over the name, 6; and below the name, 11. As for colorwork, 36 were in black or gray only, 1 was embossed in white, and 6 were in two colors —2 in green, 2 in brown, 1 in red and 1 in blue in addition to black. Here, too, there was a decided preference for listing officers as well, 17 listing all officers and 14 showing one officer's name. On one letterhead two trademarks were shown, one for the bank itself and one for the group of which it is a member.

The industrial illustration which appeared on a letterhead from a Poughkeepsie, N. Y., bank, showed—at the top center above the name—a river scene with the bridges that span the Hudson at that point, river boats and an airplane; and below in small type was the caption, "The Bridge City—Poughkeepsie." The map illustration was on the letterhead of a bank in Monterey County, California. It showed the county outline and the towns in black printing, with branch offices and arrows indicating them shown in red. Below was the slogan which is used by the bank, "We Serve the Entire Monterey County."



ANGELL

Scrap Heap

Banks are finding ways, through real estate and trust departments, to save repossessed real estate of all kinds from the scrap heap of deterioration. Direct management and property improvements are achieving results

Management of Properties in Default

SOME bankers, more fortunate in these times, may be able to limit their interest in real estate to a few small dwellings. In contrast, however, are the vast majority who find themselves in the position of mortgage-owners or mortgagees in possession on a scale that requires the full-time attention of one or more officers and even of well organized real estate departments. And with approximately $5,000,000,000 in other mortgages which are held by estates under the supervision of banks, some 3,000 trust departments are also concerned with the handling of those properties. So, on two counts real estate has become a major banking problem and bankers the country over have been faced with the necessity for going into it more thoroughly in order to work out of a forced situation.

Within the banks themselves it has meant organization and methods for the purpose. Collectively, it has meant developments that are even more far-reaching. How banks handle their real estate was the subject of a study which the JOURNAL recently made among a number of eastern institutions, and the results justify these conclusions. Their methods of supervision and management of properties, how they control expenditures and handle renovations, and how thoroughly they are forced to go into all phases of real estate handling disclosed some interesting and helpful facts. This study was conducted both by letter and by personal interviews, and the following summary is based upon replies from 121 institutions which included 44 national banks, 67 state banks and trust companies, and 10 mutual savings banks.

Of the 121 included, 116 have real estate holdings and only 5 have no real estate. Of the 116 banks with real estate, 89 of them handle the properties themselves without outside help, 8 handle them both direct and through real estate firms, and 19 turn over practically all details to local agents. Of the 8 that use both methods, 6 permit the real estate firms to handle only the minor details of repair and renovation in addition to renting and re-sale, while 2 employ them for renting only. And from the important angle of expenditures, 101 of the 116 banks reported that they control all expenditures and the other 15 reported that they control the major expenditures and permit outside agents to handle only small repair items.

Supervision within the banks showed a wide variance in method. Fifty-five banks reported senior officers—12 presidents, 28 vice-presidents, 7 cashiers, 6 treasurers and 2 secretaries—in charge of real estate activities, 15 reported junior officers in charge, and 8 look to the board or to property or real estate committees for final decisions. Eighteen real estate or title officers supervise, and 17 trust officers handle real estate both for the bank and for trust accounts. Three banks gave no information on this point.

As one banker expressed it, "there has been no urge here to foreclose and we have realized all along that there was little to be gained. Cheaper properties were dumped and had to be taken over, of course. On income properties, however, we preferred to take assignment of rents, getting control and being in position to foreclose if necessary. These properties may or may not work out. The time may come when

arrearages are paid and the properties can be handed back to their owners." This bank anticipated the current real estate situation and prepared in advance to meet it. The officers believed that most banks do not go into and try to manage properties thoroughly enough, that the evils must be minimized, that a stricter watch must be kept, and that these things can be accomplished only through well established real estate departments. It was emphasized to a JOURNAL representative that there are two kinds of real estate men, brokers and speculators, and that this is no time for speculators to handle bank real estate. Alert to this fact and believing that local real estate men in its city were too warped in their views and too close to local problems, this institution brought into its organization a man from another city, a broker who had been required in previous connections to refrain from personal dealings—speculations—in real estate. He was placed in charge of the real estate department and is bringing numerous properties out of the red in spite of local conditions.

NEW ORDER

ANOTHER banker emphasized saving on management as the reason for its extensive activities in maintenance, renovation and renting. "It costs us 2½ to 3 per cent to run this department," he said, "and a dependable agent would not take a property for less than 5 per cent. There are some agents that might take some buildings at 3 per cent right now, but we don't want them because we know from experience that when less dependable agents handle a property there will be 10 per cent kickbacks on repairs to make up the difference in commissions. Then, too, we would need men anyway to check up." This bank does not even give out general lists—a practice followed by most of the institutions in its city—in order to prevent "shopping" by local agents. In other localities, however, the JOURNAL found more cooperation between bankers and real estate men on such matters, but the listing and advertising of properties even then include the bank name only, except in some instances where the words "or your broker" also appear in small type.

But perhaps the greatest contrasting development of all in this new order of things lies in the maintenance and renovation methods being adopted by banks where numerous repossessions are involved. It requires merely a glimpse at the real estate activities of a few large banks to see the changes that are necessarily taking place. In a few instances, these activities require the full-time employment of architects, engineers, draughtsmen, experts on elevator construction, heating and lighting, purchasing agents, property managers and salesmen. The experience that they now bring to banks is the experience that "has always been their bread and butter" and that formerly was employed in their own behalf or directly in the professions or in various industries. But today they are working in banks helping to solve bank real estate problems. And the volume of buying that formerly was handled by individual owners or turned over to private contractors, insofar as these repossessed properties are concerned, now comes direct from banking institutions. These widescale activities are helpful to bankers, and economical as well in the handling of these properties. They are also helpful to industry and to labor. In the current situation banks as a rule are putting money into improvements both to preserve the properties and to make them rentable or saleable, whereas private owners would be doing little if anything. This is providing employment for thousands, and it is stimulating trade for numerous manufacturers in the building and equipment fields.

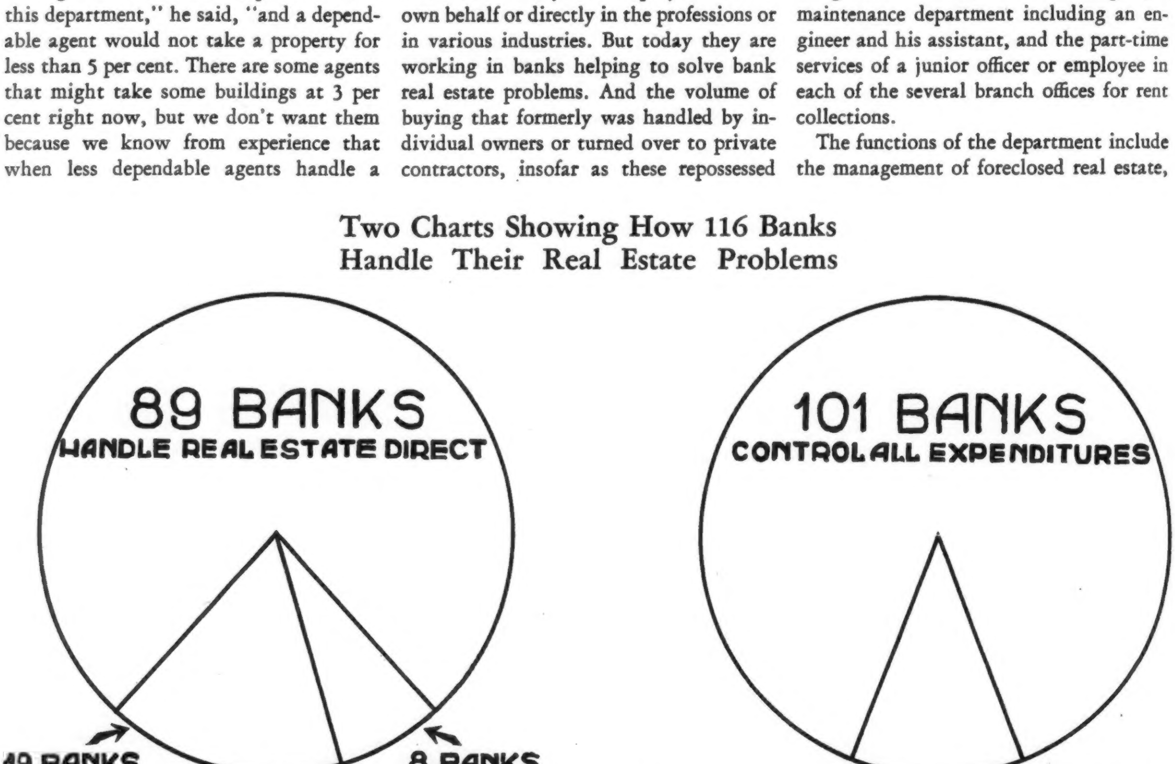
TWO EXAMPLES

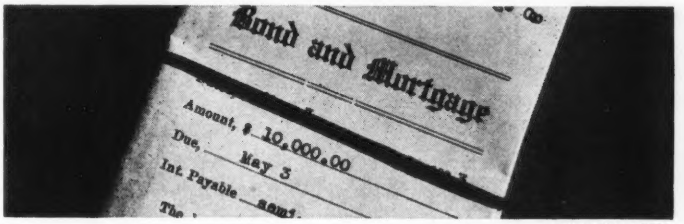
WITH the increasing importance of real estate operation, it may be well here to picture briefly the work of two such departments and just how they are organized. One of them is in a medium-sized trust company operating several local branches. The other shows how a mutual savings bank handles its repossessions.

First, the trust company example. Real estate matters here are handled by the real estate department which is responsible directly to the president and the executive vice-president, with sales submitted for the approval of the executive committee. The real estate manager has one assistant handling inside details, two bookkeepers, a maintenance department including an engineer and his assistant, and the part-time services of a junior officer or employee in each of the several branch offices for rent collections.

The functions of the department include the management of foreclosed real estate,

Two Charts Showing How 116 Banks Handle Their Real Estate Problems





EWING GALLOWAY

the handling of buildings under rent assignments, the handling of real estate for the trust department, and the maintenance of the trust company's own building and those of its branches. Constant inspection of repossessions is maintained, and these properties must be inspected at least four times a year. This service records the condition of the properties, the vacancies and desertions; and it anticipates what may happen to various mortgages and watches the full mortgages, those that are now 80 per cent of the value of the property whereas, for example, they were only 50 per cent when the loans were made. The handling of properties for the trust department includes making the necessary improvements —which in some instances means better improvements than is often permitted on foreclosed properties—and collecting rents and handling bad payers. The maintenance of the company's own properties includes repairs, redecoration and other improvements in the main office and branch quarters, and cooperation with the purchasing department on new supplies and equipment.

Rent collections, as stated before, are made by a junior officer or employee from each branch, collecting in that zone and using special receipt forms. These men report complaints and repairs to be made, and the "mop-up" squad—the engineer and his assistant—carry on in making repairs, handling ejections, etc. In a very few instances, local real estate firms handle collections from properties which they had previously managed, but they merely collect and have no other authority. Their collections must be deposited in a special assigned rents account which is considered as a trust fund and from which the money is withdrawn each month.

As to renovation, this department follows a conservative "pay as we go" policy, and is keeping just ahead of actual renting in its renovation of income properties. Proceeding slowly to avoid new delinquent payers, it is awaiting the proper time in its own locality to spend more for extensive renovation. Incidentally, the same policy holds for sales, and a better market is awaited before selling effort will be made.

Other important functions include the handling of tax appeals and tax adjustments, and efforts to secure appointments as receivers, serving without compensation, for income producing properties. Cooperation with the HOLC is more active on some distressed properties and in the refinancing of others.

Now as to the real estate department of a mutual savings bank in another city and state. Under the supervision of the treasurer, the mortgage officer or department head has divided the functions into four divisions: inspection, management, maintenance, and sales. The personnel includes three inspectors, four collectors or managers—each of whom handles no more than 50 properties—a man in charge of maintenance, and two salesmen in addition to the clerical employees. Thorough inspections must be made every two years during the mortgage term and, if a property is taken over, the department manager makes a personal inspection to determine the condition of the property and the extent of repairs and renovation. Special attention is given to the type of resident managers or superintendents employed for apartment houses, and their duties lessen the work per building which is required of the collectors or managers. No agents are employed, and no general contractors are used.

MODERNIZATION

THIS bank completely renovates its repossessed properties to compete with more modern buildings, and the files of the real estate department are filled with equipment information and data on special contractors. Large or more expensive equipment is purchased direct, and attention is given even to the smallest details in renovation work—details that appeal to women in the selection of apartments or homes. As an example of the extent to which this department goes in its handling of properties, the following classifications from the real estate officer's personal file of contractors and manufacturers is offered:

Ash removal, boilers, utilities (by name), carpenters, cess pools, cleaning materials, cleaning store fronts, coal, dumb waiters, electrical work, elevators and elevator repairs, gardeners, general contractors and cement work, glass, hardware, housewreckers, ironwork, linoleum, lumber, metal ceilings, painters and decorators, oil, plumbing and heating, poles, ranges, refrigerators, roofing and sheet metal, rusticide, shades, signs and lettering, sprinklers, stone renovating, tilework, tile, uniforms, vermin exterminators, and welding.

In some institutions, as revealed by this JOURNAL study, the details of real estate handling are centralized but supervision is divided. One banker replied, for example, that "our real estate is looked after, insofar as rental, repairs and renovations are concerned, by a practical man who is not an officer. For the trust properties he works under the supervision of the trust officer, and for the commercial department he is under the supervision of an assistant vice-president. The building and equipment of the bank proper are handled by an assistant cashier."

In numerous other institutions the real estate problem seems to be that of trust departments rather than of the banks themselves, focussing attention on the estimated $5,000,000,000 in mortgages held by estates having corporate fiduciaries. As to the procedure in these cases a banker commented, "the major portion of the real estate in our care belongs to account where we act in some fiduciary capacity and, therefore, it is not our practice to turn these properties over to a real estate firm except in certain cases where this method seems to be particularly desirable. It is not our practice, even where properties are listed with real estate brokers, to give them the complete authority to which you refer. The officer in charge of real estate is known as the real estate officer." And from another banker, "whatever attention is required in real estate matters for our trust department is given by one of the trust officers. A bank official passes on the smaller items and a finance committee handles the balance. The only real estate activities we have are in the trust department."

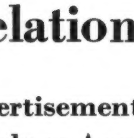
On specific properties, too, local agents are frequently employed to advantage. As an example, "we do engage the services of local agents in order to obtain tenants and in some cases to manage properties out of town and in sections removed from the office, but these agents are accountable to the real estate department. They do not have complete authority except in the matter of ordinary maintenance charges. All major improvements and repairs are referred to the real estate department." From another banker, "in two instances where we have large downtown office buildings, we have installed therein a local real estate man and have given him general supervision of the building under a contract which makes it necessary for him to submit items of major expense to our officers for approval, and any written contracts are executed by an officer of the bank—a vice-president."

Public Relations—1934

The banks whose advertisements are shown above have found the American Bankers Association Journal, in 1933, useful in the sale both of their correspondent and commercial banking services.

Advertisers in the last five months have benefitted by an increase in net paid circulation among financial and industrial executives totaling 6,690.

In planning your advertising for 1934, the value of the JOURNAL as the most effective means for reaching executives in banking and industry merits your consideration.



A Couple of New Lows for November

DUFFY IN THE BALTIMORE SUN

Now That We Speak the Same Language

DING IN THE NEW YORK HERALD TRIBUNE

CONVENTION CALENDAR (1934)

A. B. A. Meetings

June 11–14 A. I. B. Convention, Washington, D. C.

Oct. 22–25 A. B. A. Convention, Washington, D. C.

State Associations

May 8–9 Oklahoma Bankers Association, Tulsa.

May 15–16 Missouri Bankers Association.

June 18–20 Iowa Bankers Association.

July 2–4 North Dakota Bankers Association & South Dakota Bankers Association (joint convention), Deadwood, S. D.

Dec. 8–9 Southern Secretaries Conference, Richmond, Va.

Other Financial

Jan. 18–19 New Jersey Midwinter Conference, Trenton.

Jan. 19 New York Midwinter Conference, at Federal Reserve Bank of New York.

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ANGELL

1933 has been a year of constant conflict between experience and experiment

Change

NATIONAL and international events have occurred with extraordinary rapidity during the past eight months. Bankers especially have been affected by these kaleidoscopic changes in the realms of business and finance. Every banker has found it necessary to resort to the basic principles of economics and to the fundamentals of money and banking in order to understand what the new legislation originated in Washington is intended to do and how it is expected to operate. But aside from the problem of how some of these changes may operate in theory, the banker is confronted with a very vital question of how in his estimation the changes will operate in practice.

A decision necessitates the falling back upon first principles; hence people in the banking fraternity have been giving considerable time to fundamentals. Success today requires background, because it is extremely difficult for a person not equipped with the proper background to keep pace with developments as they occur.

The American Institute of Banking has been performing a useful service as an educational institution stressing the need for an adequate understanding of fundamentals in order to conduct the banking business properly. Today this need requires no special emphasis, and persons engaged in banking throughout the country are eagerly resorting to the Institute, either to obtain this fundamental knowledge or to brush up through graduate seminars on the developments of the day. Nor has the Institute been hesitant to point the way. Its textbooks have been revised so that their readers may be aware of the important changes which have taken place in our banking laws.

In addition to the revision of its textbooks, the Institute is attempting to assist the experienced banker through the publication of other material. Today such questions as how prices may be affected through changes in the gold value of the dollar, what significance should be attached to the suspension of the gold standard by the United States and what inflation means, are confronting all bankers. An understanding of such developments requires a knowledge of legislation since the beginning of the depression in 1929. The Institute, in a publication entitled "Anti-Depression Legislation", has carefully brought together such measures. This publication does not recite the language of the acts, but, on the contrary it gives section by section an explanation of the measures themselves, their background, the reasons for them and the results of their operations to date.

The whole Rooseveltian philosophy is incorporated in the words "New Deal". Most of the recent developments which have so affected our business world are to be found in the Administration's concept of this New Deal. What is the President trying to do? Will he be successful? Have his measures up to the present time been above criticism? All these are interesting and profitable topics for discussion by banking groups. The American Institute of Banking, realizing this, has prepared another graduate seminar and a publication, "Banking and the New Deal", containing much material on the subject is now in the course of final preparation. These publications are being made available to bankers at a nominal cost.

The country today needs men and women with adequate background to understand the difficulties which the nation is facing. The leaders of the day must understand the problems we are confronting and also the measures which are being proposed to relieve the nation's difficulties. The leaders must be in a position to reach a conclusion with some degree of clarity as to whether or not these measures will be effective in an attempt to overcome the effects of the depression. Bankers are faced with a great task in thus helping to guide the destinies of the nation. Education and more education is the prerequisite for a proper understanding of present developments. It is quite fitting, therefore, that the American Institute of Banking, as a branch of the American Bankers Association, should have recognized its duty to the banking profession by preparing to lay the groundwork for a proper understanding of these important economic and financial phenomena which are now taking place.